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Ideas on Liberty

MAY 1984

Government and Taxes

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FOUNDATION FOR ECONOMIC EDUCATION
Irvington-on-Hudson, N.Y. 10533 **Tel: (914) 591-7230**

Managing Editor: Paul L. Poirot
Production Editor: Beth A. Hoffman
Contributing Editors: Robert G. Anderson
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers

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Government and Taxes

Government has to tax citizens for every dollar it spends. And these taxes are extracted from the citizens in three ways. One is visible. The other two are hidden.

Visible taxes are so unpopular that the majority forces its representatives—at the peril of losing their jobs—to minimize these taxes their constituents see. Yet this same majority continues heedlessly demanding more from government than they will knowingly pay to government. The excess must be collected in unsuspected ways.

The first hidden way is through taxes outwardly levied on business but necessarily passed on in higher prices which the misled majority does not blame on government but on business. This is a regressive consumer sales tax.

The second hidden way—to make up the difference between the spending and the two above taxes—is through the government borrowing. Some of this is from private sources—resulting in reduced capital for productive uses, in higher interest rates, and thus in slowing or preventing progress in values and jobs.

The final and major part of the $200 billion excess spending is collected from citizens through the borrowing that is monetized. This dilutes the value of everyone's earnings, savings, pensions and welfare checks. It is the tax of inflation—the most brutal, deceitful, debilitating and regressive of all taxes. Lenin predicted we would destroy ourselves with it, and we have been trying our best to prove him right.

Thus, if the now suggested $50 billion new tax money were all miraculously allowed by a vote-hungry Congress to pass through into a deficit reduction of like amount, the debilitating cost of government would still be exactly the same.

Only a *net* reduction in spending—and thereby in the total of the three taxes—will reduce the cost of government and its major contribution to our inflation, unemployment, high interest rates and non-competitiveness.

—Lemuel R. Boulware

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
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William Noland

Who Counts? YOU DO!

HAVE you ever had a good idea but lacked the courage to suggest it? Did you ever fail to brave the weather on a cold day to go to vote because you felt that your vote wouldn't mean much? Or to write a letter to the editor of the local newspaper protesting a bad city council decision about to be made? Or dangerously exceed the speed limit on an interstate highway because your passengers were hilariously accusing you of being "chicken"? How often do you fail to be a setter of good examples where you are capable of doing so, e.g., with your children—listening, playing, encouraging? Do you always behave becomingly even with strangers you chance to meet? In short, how well are you succeeding in that central obligation to yourself to become self-actualized, that best product of human nature and environment you are capable of becoming?

Ours is an age of going along with the crowd, of adherence to group influence, of follow the leader. The expression "individual initiative" is still in our vocabularies, but we read books about the "organization man" and that Vince Lombardi told his Green Bay Packers that "football develops initiative, so get in there and do as I have taught you." "Rugged individualism," on which many claim America was built, has fallen by the wayside—and, of course, if it is too rugged, it is just as well, for we cannot afford to return to the posse mentality of the early West. But individualism still has a place—if it is the right kind.

Fifteen years ago, when our society was in the throes of the most rapid political and social change in its history, when student rioting on college campuses was the order of the day, "doing one's thing" was the

Dr. Noland is Professor Emeritus, University of North Carolina, and remains active with his writing and industrial and educational consulting work.

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ubiquitous slogan for the way to behave. It persists in some quarters of American life today, but a major resurgence of the belief in responsibility for the consequences of one's actions is taking place. Familiar now is the recognition that "doing one's thing" can be either good or bad. If it is an expression of originality or inventiveness, that promotes proper personality development and one's right to be unique, without at the same time trampling on the rights of others, it is good. If, on the other hand, it is selfish behavior, characterized by utter disregard of the rights of others, even at times to the point of inflicting harm, it is bad and has no place in a sane society. So we have a dichotomy of individualism: constructive and destructive.

No great effort is required here to differentiate between the good and the bad. Destructive individualism is a philosophy of alienation from society, the embodiment of selfishness, the doctrine of an individual's freedom from all bonds. It implies erosion or even displacement of the integrative forces that hold society together and enable it to function—family, community, church and neighborhood. Constructive individualism, by contrast, supports these coordinating units, survives alongside them, subscribes to a philosophy of effective coexistence, is a partner with the State in the common enterprise of creating a fuller life for all mankind. Much of history is an account of the struggle for dominance between the individual and the State, but, in truth, in a society such as ours, they must live together in intimate and mutually supportive association. At the center of this relationship, of course, lies the recognition that individualism, to be constructive, requires assumption of responsibility for consequences.

Individualism Threatened

Threats to individualism are many. At this point let us ask ourselves two important questions: How can individuality be preserved and man rescued from the anonymity of the great crowd? Why and to what extent has man fallen victim to the mass?

Of course we must recognize that both the individual and the mass are quite different from what they were three hundred, or even one hundred, years ago. The typical individual of the seventeenth century in the Western World was a man of unruly temper, fierce independence, constantly at war with his neighbors, and hostile to all attempts to discipline him or limit his appetites. The mass of a century ago, or even less, consisted of bands of disadvantaged men, illiterate, hungry, bereft of the benefits of full citizenship. Today the mass includes the advantaged, comfortable, educated benefactors of our

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technical gadgetry. But the struggle for individualism remains.

When we in highly urbanized societies ask ourselves why we are so uncomfortable, troubled, anxiety-ridden, we are apt to say, too many people. Our cities are crowded and our countryside is becoming so. Our journey to and from work may not be long in actual distance but in time it often borders on the intolerable. While some of us live where it is possible to organize our lives in such a way as to reduce the strain of overcrowding, we need to wonder just how long this escape will last. The chance to avoid the jostling of the crowd, to flee in pursuit of privacy, to hope for the solitude in which individuality thrives, to find quiet moments in a hurrying age, diminishes exponentially as the population grows and technology renders that population more mobile. And this brings us to the question, what is the role of technology in one's quest for individuality?

Technological Advances

Some of our modern inventions make it possible for the earth to sustain with relative ease numbers which would have been impossible in earlier times: scientific agriculture produces more food; new materials are developed as old resources are used up. The telephone, the jet airplane, and now the computer are so commonplace as to be seen almost as given. (Losing one's pocket calculator will soon be as serious as losing one's eyeglasses.) Technology extends man's reach and makes the accomplishment of his purpose easier. Journeys can be longer, safer and expeditiously taken. All this is fine—but only to a certain point!

As man consumes more space and multiplies his impact and presence on the globe, he promotes crowding or the subjective feeling of it. Our so-called "technological imperatives" are such that the machine becomes self-perpetuating. So we may soon reach that point in time, if indeed we are not already there, when adaptation and conformity to the dictates of the machine exact from man too grim a price. What does all this do to man's search for individualism, to be alone, to feel free from too many environmental impingements? In short, what does all this do by way of denying man's basic nature? Our devotion to technology, our commitment to finding some use for everything we invent, amounts to our reversing the old adage that runs "necessity is the mother of invention" to read "invention is the mother of necessity." In short, this burgeoning of population, technology, mobility and the mass media raises serious questions concerning the chance an individual has to find a "home," where he has room to move and time to think.

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Responsible Behavior

Constructive individualism implies assumption of responsibility. Responsibility is such a familiar word there seems to be little need to define or describe it. In some instances responsibility is stipulated in explicit terms: there are laws to obey, contractual agreements to pay our bills on time, covenants to be faithful to each other "in sickness and in health." In other cases, likely the majority, expectations are unwritten. They become our habits, without which society could not function or even exist. And, of course, there are many situations that lack definition of appropriate behavior, where mutually acceptable rules are absent.

When we wrestle with the meaning of responsibility we encounter many questions. But perhaps they boil down to two relatively simple ones: To whom am I responsible, and for what am I responsible? Responsibility is not a thing but a relationship. It is a relationship of three types: to others, to certain situations, to oneself. One is responsible for helping his neighbor meet his needs. If one is a religious person, he has responsibilities to his God that he must acknowledge. One is responsible to himself in a variety of ways: to understand himself, to keep himself under constant surveillance in order to ferret out his weaknesses and his strengths, to transform those weaknesses and reinforce the strengths, to respect and revere individual worth.

Assumption of responsibility takes many forms. Sometimes we are hampered in our efforts to be responsible to others. Out of a sense of independence, pride or unreadiness, some people do not want to be helped. Sometimes our responsibility takes on the trappings of remedial or compensatory behavior: We find ourselves having to bear the cost of consequences of decisions we have made in the past, consequences that are proving to be more destructive than we had anticipated. But these two forms of assuming responsibility—helping others who do not want help, and shouldering the cost of our past actions—are only part of the picture.

Creative Action

Central to the concept of responsibility is that of response, and central to the notion of response is that of action. Robert Johann, in his brief essay on responsibility, writes: "The meaning of a man's life is the difference his presence makes in the overall process." When we activate responsibility, we exert energy, we introduce purpose, and often we take risks. Creativity frequently enters the picture. Responsibility is not always simple compliance with established rules, a mere external conformity to contracts and agreements.

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In many instances one's responsibility involves his exerting effort to alter the course of events, to reform existing institutions, to explore new possibilities for human fulfillment.

This plea for individual expression and responsibility is not being made at the cost of neglecting the role environment plays in one's development. The extent to which what we are is a function of socialization is common knowledge: we learn from others what we are supposed to know and do; we behave in terms of their expectations. Rather early in life one acquires a conception of self; he becomes an object to himself. This phenomenon, from which such concepts as self-consciousness, self-assurance, self-confidence (and, unfortunately, self-indulgence, self-love and selfishness) get their meaning, marks the beginning of a person's recognition that he is real, that he is an object to others, that he counts. But this need to emphasize external social forces—the influence of others—must not fall prey to undue emphasis. Growing up is a process of relinquishing much of our dependence on others and acquiring independence—and that independence places on one the responsibility of behaving in acceptable ways, ways he has had the chance to learn. We cannot remain children; soon each of us who is normal must become ultimately responsible for almost all he does.

The relationship between individual responsibility and leadership is relatively clear. Those who can lead have an obligation to do so—but often honest and efficient leadership encounters obstacles. In many instances, one does not have to be an honest leader to gain his ends; those he leads, often as dishonest as he, do not require him to perform ethically; and, finally, leadership implies the exercise of power, and power is anathema to many people. Innumerable are the capable and honest citizens who shy away from leadership positions because they have come to believe that power always corrupts, and that personal abuse of power is inevitable. There must be a mutually supportive relationship between the leader and the led: the leader fulfills his followers' needs for goods and services, for recognition and response; the followers, in turn, provide the leader with status, commensurate prestige, and other ego satisfactions. But in the end, in legitimate causes, honesty and self-respect in the leader precede trust and respect from followers. Therefore, getting right with oneself, in leadership as elsewhere, is of the essence.

Recapitulation

Let us re-examine briefly what we have just said. A major part of what we call social adjustment is essentially an individual's relation to

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himself. As Alfred Whitney Griswold has said: "There is no such thing as public morality, only a composite of private morality." In a very real sense, the quality of a society over time is the quality of the individuals composing it. We need community, but it must be community which sustains but does not suffocate the individual. However, in asserting our individuality we must be different without being contrary, without flaunting our independence.

Henry Van Dyke called individuality "the salt of common life." "You may have to live in a crowd," Van Dyke continued, "but you do not have to live like it, not subject to its food. You may have your own orchard. You may drink at a hidden spring. Be yourself if you would serve others." To this, of course, should be added the admonition that serving others is not easy, and that, for some people the advice "be yourself" is dangerous. But, although Van Dyke wrote these lines many years ago, they still have credence in this fast-paced age of "too many people."

Here we have joined Winston Churchill in insisting that responsibility is the price of greatness. Our privileges can be no greater than our obligations. Character is doing, without expecting publicity. Integrity is working just as hard when the boss is away. Contrary to much of the message of the media, life is not made up solely of winners and losers; there is ample reward for simply succeeding at the level of doing one's best.

Perhaps a fitting close to this plea for constructive individualism is a simple paraphrasing of the Kantian "categorical imperative": Act always in such a way that you would see your actions as deserving to become universal law.

IDEAS ON LIBERTY

Frank Chodorov

THE only "constructive" idea that I can in all conscience advance, then, is that the individual put his trust in himself, not in power; that he seek to better his understanding and lift his values to a higher and still higher level; that he assume responsibility for his behavior and not shift his responsibility to committees, organizations and, above all, a superpersonal State. Such reforms as are necessary will come of themselves when, or if, men act as intelligent and responsible human beings. There cannot be a "good" society until there are "good" men.

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Edmund A. Opitz

THE MARKET ECONOMY AND ITS LIFE-SUPPORT SYSTEM

THE WORLD we live in is divided. The major division, the division drilled into us by journalistic usage, separates the planet into the iron curtain countries versus the free world. Soviet Russia and its satellites plus communist China and its satellites are geographically separate from the nations comprising the free world, but the differences are not merely geographical.

The iron curtain countries are fiercely devoted to an ideology which is at war with the philosophy of liberty which the free world professes, but to which the free world gives little more than lip service. Communism is a fanatical, crusading faith which activates millions behind the iron curtain; nothing of like intensity inspires the citizens of the so-called free nations. I say "so-called," having in mind that Britain is socialist, France has a socialist president, and America continues welfarist despite the good intentions of Mr. Reagan and many of his henchmen.

Why does government continue to expand? Why does it cost us more with each passing year? It's no mystery; more and more people are dependent on government give-away programs which the taxpayers have to pay for. Social Security is a costly program and it's here to stay, at least for the foreseeable future; it has now become compulsory for those formerly outside its grasp—like FEE. Then there is our permanent bureaucracy, with its multiple alphabet agencies empowered to regulate virtually every facet of our lives. There are various and growing numbers of people and groups en-

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The Reverend Mr. Opitz is a member of the staff of The Foundation for Economic Education, a seminar lecturer, and author of the book, *Religion and Capitalism: Allies, Not Enemies.*

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compassed by the entitlement programs; many businessmen enjoy special privileges conferred by government; millions of former government employees and politicians dig deep into the tax fund for their pensions. Everyone who feeds at the political trough has a stake in bigger government and higher taxes.

Freedom at the Fringes

Freedom is marginal in modern societies; it survives on the fringes of life. We can widen the margin of freedom only insofar as we deepen our understanding of the free society and its imperatives, and then act wisely in terms of what it demands of us. Recovery of freedom will not be easy, for the people of this nation are not of one mind as to the merits of a society of free people. There are Marxists in America and they show renewed vitality. One of them, a professor at New York University, has recently (1982) written a book entitled *The Left Academy,* describing Marxist scholarship on American campuses, in the departments of economics, political science, sociology, history and psychology. He tells us that:

> In political science, for example, four Marxist-inspired textbooks in American government have been published since 1970, whereas before that there were none. In the same period, Cambridge, Oxford, and Princeton University Presses, the three most prestigious university publishers, have among them brought out over fifteen books on Marx and Marxism, almost all of them quite sympathetic. There are over 400 courses given today in Marxist philosophy, whereas hardly any were given in the 1960s.

Socialists and liberals in our nation are more numerous than Marxists: they are also more respectable. They regard themselves as intellectuals, and they write and they talk. Using the written and the spoken word from a variety of podia and pulpits they virtually dominate the various avenues of communication—radio, television, movies, the press, schools and churches. They report the news they want us to hear and tell us how to think about it; they write most of the scripts for Broadway, radio, television and the movies; they write speeches for people in public life; they compose the songs and the slogans that stir popular emotions. They manufacture the public opinion which determines political action.

In short, millions of Americans today—for reasons of their own—do not want a market economy; they are financially dependent on an over-extended government, massive Federal spending, and high taxes.

That's the bad news. Now for the good news. The good news is that the philosophy of the market economy and the free society is in better shape than ever before. It is more intellectually rigorous, more solidly

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based, spelled out more clearly than ever. And it is available in an increasing number of books, pamphlets, and periodicals. Hundreds of organizations are now hotbeds of free market activity, promoting a set of beliefs on the highest mental and moral plane, and reaching down into the deepest wellsprings of human nature—the firmly rooted aspiration of every man and woman for the elbow room necessary for them if they are to achieve their personal goals.

The Socialist System versus The Free Market Economy

Socialism or communism is easy to understand; a socialized society is one where the government owns the means of production; government operates the factories, the banks, the farms, the mines; it generates the power and controls transport and communication. In a socialist or communist system government runs the country. The system doesn't work.

The free society, by contrast, is not *run* by anyone. Yet, it runs more efficiently than any politically planned economy. The free society operates within certain rules which safeguard life, liberty and property; individual decisions within these rules marvelously coordinate—as if guided by Adam Smith's "invisible hand." Individual ownership is a key concept of the free society; manufacturing, business and trade operate under private auspices; productive property is owned by scores of millions of individual persons. The market economy is not a "system," but it works. It is the market economy which created and continuously renews the prosperity we enjoy, and which the world envies.

Our forebears in the 18th century talked a lot about property. The political war cry of the period was "Life, Liberty, and Property," with major stress on property. There was a reason for this. These people knew that the chief distinction between a slave and a free man was the fact that the slave had no right to own things. The slave worked and he produced things, but he had no right to possess them; the product of the slave's labor belonged to his owner. On the other hand, any person with the right to own whatever he produced *was* a free man; his survival did not depend on another's whim: he was his own man. And being free, he had every incentive to become more productive, and thus more prosperous.

Personal liberty cannot exist except on a private property foundation, and that foundation is badly eroded in 1984. The fact that in our nation today the productive people of this society work approximately five months out of each year for government, before they are allowed to keep the fruits of their toil for themselves, would have seemed to our forebears a monstrous injustice. Pri-

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vate property is a pillar of the free society idea, but it's a shaky pillar in today's world.

Everyone desires a place in society which gives him the widest range of opportunities over the greatest possible latitude to live the life he has chosen. Everyone knows that he must be free if he is to fully realize his personal goals. I suppose that the average citizen of Moscow or Peking has his dreams, just as we do, and presumably he does achieve some of his ambitions. But the state exercises almost complete authority over his life, determining his training, the kind of work he does, how he shall live, with whom he associates, and what he reads.

Interrelated Freedoms

Although we in this country are not as free as we say we'd like to be, the opportunities here to live a full and well-rounded life are infinitely greater than they are in collectivist nations. We are free to read what we please, to speak our minds, to attend the church and school of our choice. These intellectual and cultural freedoms of ours are directly related to the degree of freedom we enjoy in the economic sphere. Economic freedom is important in itself, because every freedom is important. But economic freedom is doubly important because the higher freedoms depend on it.

Take freedom of the press, for example—and I use the term "the press" broadly, to include not only newspapers and periodicals, but also TV and radio. The press is the communications industry, and it is big business; it's one of our largest industries. People in the communications industry often display an inflated notion of what freedom of the press means; their understanding of responsible journalism is very vague. Those of you who read the newsletter, *Accuracy in Media,* are aware of the extent of irresponsible journalism in contemporary society. Despite which, believers in the free society uphold the doctrine of freedom of the press.

A free press is what you have when there is no government censor telling reporters what to write and editors what to print. No American publisher, to my knowledge, advocates that the Washington bureaucracy be empowered to control and operate the publishing business. But a lot of people in the newspaper trade editorialize in favor of the government regulation of business—their own excepted; and we find the same kind of advocacy journalism on radio and television. People in the press are left of center, by and large.

Suppose the country accepts the advice of these people and nationalizes coal, steel, the automobile industry, the airlines—one industry after another till all business is run by the government. Should this hap-

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pen can anyone believe that a now all-powerful government will exempt the gigantic communications industry from its controls and allow the press to remain free to criticize it? Not a chance. The press too will be nationalized, becoming the government's agency of information and propaganda, specializing in Orwell's *newspeak* to program the minds of people.

Academic Freedom

An analogous situation exists with reference to academic freedom. I've never heard of a professor opposing the concept of academic freedom; he might not understand what academic freedom means, but he's all for it. Academic freedom means that a professor is allowed to teach, research and publish as he pleases without having to go to the government for permission—so long as some academic institution is willing to pay him a salary and provide him with such classroom and laboratory facilities as he needs. Academic freedom does not mean that the professor is entitled to a teaching job in an institution that doesn't want him; it means only that the government shall keep hands off the campus.

Professors, like their counterparts in the press, tend to be left of center; they believe that business and industry should be regulated by the government. Suppose their wishes come true; suppose government *does* control the nation's business and industry. From whence will come the funds to support our colleges? From one source only: government. Government controls have dried up the private sources which once bankrolled education, so government will have to finance the schools. Whoever pays the piper will call the tune, so when government pays the bills it will eventually dictate the curriculum. Teachers then become political flunkies and our colleges and universities become an arm of government, something like the Post Office.

The situation in the churches is similar, but somewhat more complex. I have many friends in the parish ministry, and I know them to be devout, honest, hardworking and devoted to the traditional values. There are some left-wing clergy in the parish ministry, turned in that direction by their professors in college and seminary, and by the materials foisted on them by certain departments in their respective denominations. But if you are looking for hard core left-wing churchmen go to the denominational hierarchies, to the religious press, to theological faculties, to the various local councils of churches, and especially to the National and World Councils of Churches. Collectivist churchmen have a monopoly of the positions of influence in these sectors of ecclesiastical life.

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These people profess their devotion to the ideal of religious liberty; they believe in the independence of the churches from government interference; they don't want a state church—they say. But if we get what they are striving for—government control of business and industry—private funding of churches will give way to taxpayer funding. When this happens the churches will no longer be free institutions; they will become branches of the government bureaucracy.

The Most to Lose

Who has the greatest stake in the free economy? Businessmen? No. Industrialists? No. It is the scholarly class that has the greatest stake in the free society and market economy. I'm talking about teachers, preachers, researchers, writers, of independent mind and character—the genuine intellectuals. When a nation succumbs to communism or any other form of totalitarian tyranny, it is no longer business as usual, but business of some sort must continue.

Every industrialized society needs managerial and technical expertise to keep it going. Someone has to operate the factories, someone must keep the wheels of industry turning, and someone must maintain a certain level of productive efficiency. Who will do this: professors of sociology, preachers, Dan Rather, Jane Fonda? Successful industrialists and businessmen, technicians who know how to get things produced—such people have a pretty fair chance to get good jobs after the Revolution. But what happens to independent intellectuals when the communists take over? A totalitarian society has no place for people of searching mind and high character; they vanish into the Gulag.

What a paradox; those who would have most to lose in a collectivist society are working hardest to bring it about. It's a kind of social suicide for these folk.

The market economy happens to be the most productive, most prosperous economy. But even if it were not, even if the market economy left us poor but honest, there's not a one of us here who would not choose to live under it, because only the free economy is compatible with freedom of worship, only the free economy permits a variety of independent educational systems, only the free economy allows the free mind to function in the areas of speech and publishing.

Economics is only a part of life, but it is the part which sustains and makes possible all the rest—the intellectual, the spiritual, the cultural. If we want to be free in these areas we must maintain economic freedom. John Maynard Keynes, in his backhanded fashion, lends support to this contention by declaring

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that his theory of economic planning adapts nicely to a totalitarian political order. He wrote a special foreword for the 1936 German translation of his *General Theory*, and had this to say: "The theory of aggregate production, which is the point of the following book . . . can be much easier adapted to the conditions of a totalitarian state than . . . under conditions of free production and a large degree of laissez-faire." If the planned economy adapts nicely to Nazism, it is obviously incompatible with the institutions of a free society.

If you look behind the iron curtain you will see several species of communism. Russian communism has a Slavic flavor. The communism of the late Mao Tse-tung contains elements unique to the culture of China. There's a Latin beat to Castro's communism. Yugoslavian communism is, to a limited extent, in business for itself; and the same is true of the communisms of various Third World nations. Those who happen to have an interest may make comparisons between the communism of one nation and that of another.

The situation as regards the free society and market economy way of life is quite different; there's only one capitalism in history, and only one today. Japan, I regard as a branch grafted onto our stem. I yield to popular usage and for convenience use the term "capitalism" for the social order I have briefly sketched—the free society and market economy way of life. The word "capitalism" is today a little less confusing than the word "liberalism" which was intelligible to our forebears, but which now means the opposite of what it meant in the 19th century. Capitalism became explicit about two centuries ago when the political ideas of The Declaration of Independence and The Constitution joined forces with the economic ideas expounded in *The Wealth of Nations*.

The American Idea

Capitalism is a shorthand term for the kind of society based on this combination of the market economy with a limited government of equal justice, and it appeared in just one place on the globe. It would be more accurate to say "one culture, the Anglo-American, separated by the Atlantic Ocean." The colonists thought of themselves as Englishmen until just before the Revolution. Many had come here from England; they shared their institutions and their history with England. But liberty attained a purer form here than in the mother country, for England was bogged down in the remnants of feudalism. So, let's focus on the free society as it took shape in America, and nowhere else on the planet.

The American idea of government was unique. Trace the history of political institutions as far back as you wish; every one is based on the phi-

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losopher-king idea. It was Plato who pinned this label on the universally accepted belief that "cities would never have rest from their evils" until they found some man who possessed the wisdom of a philosopher and at the same time wielded absolute power. The philosopher, as Plato uses the term, might be defined as a very smart fellow who really does know what is good for us. Trouble is, we ignore the philosopher; we don't want to know what is good for us; or, if we do know we are too lazy or too wicked to live the life that is good for us. What's the answer?

Simple! Find the man who embodies the ultimate in wisdom and goodness. Then vest this man with all the power he needs to extend his benevolence, as dictated by his wisdom. He will then use his power to force us to be free; he will make us good—at which point we'll have our heaven on earth.

The people we refer to as our Founding Fathers took just the opposite tack. They threw out the philosopher-king idea, lock, stock and barrel. They rejected altogether those who advised: "Increase the powers of government in order to magnify its capacity to do good." Believing that authoritarian politics is intrinsically evil, they said: "Limit the powers of government drastically, by the rule of law, so that those who rule will have no opportunity to do evil." This was the unique political formula which took root on our shores. My own thumbnail formulation of this point is: "Never advocate any more power for your best friends than you would be willing to see wielded by your worst enemies."

The Containment of Power

The critical issue here is the containment of power. Each person should be regarded as an end in himself, and in a truly free society individual autonomy is respected. But in a power situation people are reduced to a mere means to serve the ends of others. The philosopher-king idea of unlimited power to run the lives of others is based upon a profound distrust of the ability of people to run their own lives. People must be made to feel little before governments can grow big. As the power of government increases the power in the people diminishes.

Now, it may be true that a lot of people exercise but little wisdom in running their own lives, but it is a *non sequitur* to deduce from this that A's situation will be improved if B runs A's life for him against A's will! We know that this cannot work because it violates the basic law of life, a law as fundamental in human affairs as the law of gravity in Newtonian physics: *Each person is in control of his own life,* and if he doesn't take charge of himself no one can assume this responsibility for him.

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The original American idea was based upon the profound conviction that people really *do* have the latent talents and abilities which, properly schooled and utilized, enable each person to take charge of his own life and accept responsibility for his actions; each person has within him the necessary ingredients for living a truly human life of growth, fulfillment and joy. The potential for life of this quality is built into human nature itself as an original endowment. What we do or fail to do with that original endowment is up to the individual man or woman, and only a free society provides the maximum opportunity for the fullest attainment of what we have it in us to become.

Before people accept a caretaker government they must be convinced that they can't take care of themselves; independence, resourcefulness, self-reliance, fortitude, endurance, hardihood, and similar personal qualities must be programmed out of them. Our 18th-century forebears possessed these and other traits of character which enabled them to stand on their own two feet; so they conceived a government that would keep the peace and otherwise let people alone to run their own affairs.

What was the source of their beliefs about themselves; where did their ideas about life come from? We know from the books they read that the Greek literature of the classical age was familiar to them. In Latin literature and in the history of Rome they saw their own situation as in a mirror. And even those who were comparatively unlettered were steeped in the Old and New Testaments. It has often been observed that the Western intellectual and spiritual heritage is a triple cord woven of ideas and a vision of the good life derived from Athens, Rome, and The Bible.

On Becoming Human

The human nature we are born with is raw material; it's the elemental stuff each of us works with toward the achievement of adulthood and maturity. Very few people realize their potential fully, but the degree of our attainment depends on the ideas we have as to what it means to be a human being. If we believe ourselves to be helpless pawns in the grip of fate we will be less effective personalities than if we believe ourselves masters of our own destiny. If we blame childhood poverty, or parents who didn't understand us, or the wrong crowd, or an uncaring society, or our glands, or whatever, for our personal shortcomings we will never strive to convert our minuses into pluses.

No person reaches his full stature of humanity unless he maintains a lively contact with a set of ideas as to what it means to be a person, ideas

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we have absorbed from our cultural heritage. And it is a fact that great numbers of people in this favored land of ours no longer believe in the ideas that made Western civilization unique. What are some of these ideas?

Our forebears learned from their educational sources that we live in a purposeful universe in which human beings are the most meaningful representation of a mighty cosmic design. They believed that we are created beings, not mere chance collocations of atoms. As embodiments of the Divine Creativity we are gifted with reason and free will. By the exercise of right reason we can think God's thoughts after Him and thus gain precious nuggets of truth. And by the exercise of free will, we can overcome environmental handicaps and become responsible beings. They believed that it is within the power of every person to fashion his own character, and that he has a moral obligation to do just that.

Our forebears believed in the moral law. They knew that the very existence of a free society presupposes that most people most of the time will not murder or assault or steal; they will keep their word, fulfill their contracts, tell the truth, lend a hand to a neighbor. These moral imperatives were believed to be expressions of the will of God.

Every human being has a unique role to play in the Divine Plan, and because of this, each private life is lived within a sacred precinct. Acknowledging the inviolability of this personal domain, the Declaration speaks of rights endowed by The Creator which governments are morally bound to respect. Given the premise of individual rights it follows that the primary responsibility of the law is to secure the rights of every man, woman and child.

It was upon a foundation of these basic ideas about the unique sacredness of human life, the efficacy of reason, the reality of free will, the moral law, and the inviolable rights of persons that the solid citizenry of the 18th century structured the free society—with the free market as its economic corollary. We have carelessly allowed this precious heritage to dribble away, but the hunger for freedom has not been lost; it will *never* be lost, for it is born anew with every child who comes into the world. The recovery of our heritage of liberty may exact a cost in blood, sweat and tears; but of one thing I am certain—when we want freedom desperately enough, nothing will stop us from getting it.

* * *

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William H. Peterson

The Entrepreneur — Death and Resurrection

GUESS who's making a comeback in college classrooms on economics.

The entrepreneur.

Traditionally economists identified four factors of production: land, labor, capital and—thanks largely to Jean-Baptiste Say, an early 19th-century disciple of Adam Smith—the entrepreneur. Then, along about the late 1950s, entrepreneurless "resource allocation" or three-factor production became more and more the vogue—land, labor and capital. And even, here and there, two-factor production—labor and capital.

So a lot of college students have been given a presentation of *Hamlet* without the Prince of Denmark—pretty much left in the dark as to just how firms come into and stay in being. Or how firms die. They just do, maybe by osmosis, maybe by legerdemain, but, whatever, that is that. Paul Samuelson, for example, follows the three-factor pattern in his widely used text, *Economics* (though in his 10th edition he at least recognized that entrepreneurs could be "innovators" and that they could perform a limited function in developing countries).

But here of late quite a few textbooks—*Economics: Private and Public Choice* by James Gwartney and Richard Stroup, for instance—are putting the entrepreneur firmly back into the production picture. Moreover, some 150 of our 1,200 business schools now provide courses or research facilities on entrepreneurship. Baylor University, for example, has set up a Center for Private Enterprise and Entrepreneurship which has already produced an encyclopedia on entrepreneurship. Babson College in Wellesley, Massachusetts has established an Academy of Distinguished Entrepreneurs which has brought to its lecture platform such hands-on entrepreneurs as Ray Kroc, chairman of McDonald's until his death last January; Soichiro Honda, founder of Honda Motor; and Royal Little, former chairman of Textron.

In 1981–82 the late Jules Backman, a New York University research economist who applauded this

Dr. Peterson is the director of the Center for Economic Education and the Scott L. Probasco Jr. Professor of Free Enterprise at the University of Tennessee at Chattanooga.

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rebirth of the entrepreneur, organized a conference to reaffirm the critical role of entrepreneurship in a free society.[1] Dr. Backman set the tone by defining the entrepreneur as the indispensable enterpriser, initiator, risk-taker, strategist, coordinator, innovator and decision-making leader of a business, the fellow who decides what to produce and how to produce it, who is ultimately responsible for the success or failure of the firm. Though, Dr. Backman conceded, it is sometimes difficult to identify this or that individual as the entrepreneur in a large firm, "the function, nevertheless, is an essential element in the production process."

Dr. Backman blamed the two-decade demise of the entrepreneur on the dubious perceptions that large corporations are autonomous and perpetual, and that the separation of corporate ownership and management somehow negates the role of entrepreneurship. Too, he held Keynesian economics dwells on demand management, a distinctly macro concept, and thereby submerges the individualistic supply or entrepreneurial side of the economy.

Still, as noted, in recent years the pendulum is swinging back toward recognition of the entrepreneur. Why? I speculate that lagging productivity and economic growth in the 1970s called for new answers—or, in a sense, old answers. Moreover, even during the Carter administration Congress belatedly, if anything but completely, reached the conclusion that overregulation of industry and high marginal capital gains and income tax rates were entrepreneurial drags on undertaking new projects. And along came supply-side economics, with George Gilder, among others, hailing the "heroic creativity of entrepreneurs."

Economist William Baumol, a participant in the Backman conference and a former president of the American Economic Association, sees entrepreneurs as necessary but not always as heroic or creative. Sometimes they are rather two-faced free enterprisers, especially when they launch a private antitrust suit against another firm as a means of evading painful competition, or when they inveigle the government into protectionist measures. When, for example, the ICC undertook to deregulate trucking, the howls of pain by the Teamsters Union were matched by those of the owners of the regulated trucking companies. So, too, did the "entrepreneurial" efforts of sagging Lockheed and Chrysler lead to bail-outs by Uncle Sam.

Accordingly Dr. Baumol censures

[1]Conference proceedings are available in *Entrepreneurship and the Outlook for America* edited by Jules Backman (New York: Free Press-Macmillan, 192 pages, $12.95, 1983).

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doublespeak in entrepreneurs and businessmen who sing paeans of praise to competition but then condemn particular competitive practices as "cream-skimming," "predatory pricing," "dumping" or "unfair competition."

Conference participant Moses Shapiro, executive committee chairman and former C.E.O. and self-described "practicing entrepreneur" of General Instrument Corporation, makes the point that the existence of the modern firm and consensual management in no way obviates the crucial need for the entrepreneur (who is frequently manifested in the corporation's C.E.O.). He maintains that without ongoing and effective entrepreneurship a corporation suffers hardening of the arteries and loss of vision as well as loss of market. Change—frequently dramatic and sweeping change—is the order of the day, says Shapiro, and the future of a business lies in its entrepreneurial ability to capitalize on dynamism and manage change, to adapt and innovate successfully.

Economist Israel Kirzner, another participant in the Backman conference and a student of Ludwig von Mises, likes the stress on dynamism and innovation but argues entrepreneurship is more than that. He says it is an entrepreneurially directed information system seeking profit opportunities and ever tending to work on behalf of the consumer. He argues that at any given time market responses are likely to be less than fully coordinated (in economic jargon, in a state of relative disequilibrium). What the entrepreneur has to see, and see correctly and most skillfully, is information on faulty or incomplete market responses, on gaps somewhere along the line in the current and most variegated networks of technology, production, finance or marketing, industry by industry, location by location. Then, with no little risk, he has to discover or "create" entirely new information on just how to fill those gaps—or, more likely, gap—and thereby better satisfy consumer choices.

The stress on the consumer is vital to understanding entrepreneurship. Entrepreneurship is a market response—a response to the consumer. Israel Kirzner, in contrast to John Kenneth Galbraith and Ralph Nader, reminds us that the market system is a loss as well as a profit system, that the consumer is sovereign, wielding the all-powerful power of the purse, and thereby making the entrepreneur his agent and underling. If the entrepreneur acting on information is right, the consumer rewards him with profits. If he is wrong, the consumer punishes him with losses. And if he is repeatedly wrong, King Consumer applies the coup de grâce—relegates the entrepreneur to a business mortality statistic. Long live the King.

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Hans F. Sennholz

Socialists Argue About Labor Unions

THERE is a vast literature on the labor movement. Classical writers in the tradition of Adam Smith, first made an issue of "labor's disadvantage"; the socialists developed their "exploitation theories." In substance both doctrines are closely related although they may differ in form and appearance. The classical economists put it much more kindly when they spoke of "labor's disadvantage"; the socialists bluntly called it "exploitation." The classical doctrine undoubtedly gave life to the socialist theory; but later in the century the latter gave comfort and support to the former. Many writers who for various reasons hesitated to proclaim the exploitation theory, felt encouraged to espouse the milder theory of employers' advantage and labor's disadvantage.

The exploitation theory is one of the most portentous economic theories ever devised. It gave birth to modern socialism and stood at the cradle of many trade unions. Above all, it constitutes the focal point of the fateful issue on how human society shall be organized. It affirms that all economic goods are the product of human labor. But the workers do not receive the entire product of their efforts; a part goes to lenders and capitalists and yet another may go to entrepreneurs. As employers, they use the institution of private property and the contract

Dr. Hans Sennholz heads the Department of Economics at Grove City College in Pennsylvania. He is a noted writer and lecturer on economic, political and monetary affairs.

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system to seize a share that is produced by the workers. Employers exploit the situation that forces the workers by want and hunger to submit to exploitation. As a conscious and integrated doctrine this explanation was the logical sequel of the labor theory of value according to which labor is the origin and the source of the value of goods. In particular, Adam Smith's and especially David Ricardo's theories of value furnished the theoretical foundation on which the socialists could erect their exploitation doctrines.[1]

At first glance labor unions may appear to be the most obvious institution to offer instant relief from exploitation and labor's disadvantage. They may engage in collective bargaining, call strikes, and use other force in order to alleviate or even prevent the exploitation. Or, at least, they may voice loud protests against injustice throughout the whole field of labor relations.

While the champions of unionism readily draw such conclusions, many socialists press for different solutions. They usually demand a radical restructuring of the system of economic and social organization along socialistic lines. Some appeal to government for legislation and regulation that would reform the system or replace it with a particular brand of command order. Others would want to reform man through education and information so that he may aspire to a "higher order" of socialism and communism. Karl Marx and his followers were convinced that the private property system in time would give way to a socialistic order. They all disapproved of workmen's combinations for being ineffective or even harmful to working people. In their view, the interests of unionists are basically antagonistic to those of the laboring classes.

The Socialist View of Unions as Opposed to Other Workers

The founder of all modern schools and branches of socialism, William Thompson (1775-1833), was an ardent critic of unionism. Other socialists, Saint-Simon, Proudhon, Rodbertus and Marx, borrowed heavily from this Irish writer. Robert Owen, the British industrialist and reformer, admired and befriended him. Thompson postulated that labor produces all value in exchange, and that all the product of labor should belong to laborers. But they merely get a bare subsistence remuneration, the balance of the product going to land and capital. And yet, he opposed labor unions which to him were "aristocracies of industry."

Unionism, according to this early champion of socialism, "depends on mere force and would not allow other workers to come into the market at any price." "It matters not, whether

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that force . . . be the gift of law or whether it be assumed by the tradesmen in spite of the law; it is equally mere force." Union force together with government regulation manage "to keep up the remuneration of the few within the circle of the combination." Their gains are always "at the expense of the equal right of the industrious to acquire skill and to exchange their labour where and how they may."[2]

Whatever Thompson's view of economic life may have been, it did not dull his understanding of the prosecute, and the courts will not pass judgment on such union actions. While the lawlessness in labor relations may inflict serious losses on employers, it primarily hurts the interests of fellow workers and the public consisting mainly of workers. As in the times of William Thompson, union gains are still "at the expense of the equal right of the industrious."[3]

Unions Obstruct the Forces of History

Of all the socialistic leaders of the

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present system, instead of working at the same time for the transformation and employing their organized power as a lever for the final emancipation of the working classes; that is, for the final abolition of the wage system."[4]

Karl Marx was no stranger to the fact that trade unions usually benefit some workers at the expense of others. Strikes, violence and sabotage cannot improve the economic conditions of all, but are capable of causing havoc in economic production and inflicting serious losses not only on employers but also on other workers. Wherever unions succeed in raising labor costs through higher wages, costly benefits, or hampering work rules, they cause total output to decline or, at least, remain smaller than it otherwise would have been. To Karl Marx such effects merely delay the coming of socialism, which springs from the exploitation of labor. Unions must not resist the forces of history that demand that the masses of people will be employed and exploited by a small number of capitalists. These cannot consume the surplus production, but are led to reinvest their gains in facilities of production, thus further increasing output. The laboring class is weighed down further by an "industrial reserve army" of unemployed who provide poor markets because of lack of purchasing power. When the business crises become increasingly severe, the labor class will rise, cast off their chains, and seize control of the state—the exploited will expropriate their expropriators.[5]

Consider the Facts

The emptiness and spuriousness of these doctrines are visible to everyone not blinded by Marxian sophistry. The essential point made by Marx and all other socialists is the exploitation and impoverishment of the working people in capitalistic countries. But it is an indisputable fact that the workers' levels of living are highest by far in countries with private property in the means of production, and most wretched where the system has never been tried.

In a world ranking of workers' income, there probably is a directly proportional relationship between income and the application of capitalism. The U.S. has the longest tradition of adherence to the private property order; its working people are enjoying the highest standards of living. The backward countries of Africa and Asia have remained unaffected by the spirit and the ways of capitalism; their masses linger in poverty and despair. Neither labor unions nor labor laws can alter this basic relationship.

Wherever the disciples of Marx come to power they immediately abolish labor unions in their traditional form. In the Soviet Union, which is the ready model of all

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Marxian systems, unions are just another "driving belt" that makes the workers meet their production quotas. They do not represent the interests of working people, but are obedient instruments in the hand of party and state. There is no room for independent unions in the Marxian command system. Wherever they should rear their heads, imitating the labor organizations of capitalistic countries, they are crushed without delay. The Solidarity movement of Poland is a recent example.[6] But this Marxian principle and public policy does not prevent the leaders of the system from encouraging, promoting and supporting the most destructive labor unions in the West. After all, Karl Marx assigned the task of leading the fight against the private property order, against capitalism, to the unions.

The Base of a New Order

The exploitation theory, which gave birth to modern socialism, may also be interpreted as a mandate to unionism. If labor is actually exploited, labor organizations may offer relief from exploitation through collective bargaining and other devices. This is why so many ardent socialists always have been the faithful friends of unions, and most unionists the eager disciples of socialism.

In England and France some elements of socialism friendly to unionism were discernible throughout the 19th century. One of the early socialists, Robert Owen (1771–1858), began to influence social thought as owner and manager of the cotton mills of New Lanark, Scotland. His mills became a showplace of enlightened management and philanthropy, which aimed at introducing "new principles in the conduct of the people." Owen rejected the competitive private property order in which "one man's gain" is "another man's loss," and urged the introduction of a cooperative order with a healthy and happy environment. He favored "villages of co-operation" where production would proceed without the profit motive. The villages were to be both a necessary remedy for unemployment and a contribution to "social regeneration."

When Owen failed to convince the British public of the wisdom and practicability of his plans he left Britain for the United States in 1824. At New Harmony, Indiana, he established a system of communal living in order to realize "the new moral world." When the venture failed, swallowing up most of his fortune, he returned to Britain, developed a secular religion, and, in 1839, constructed a new community at Harmony Hall, in Hampshire, England.[7]

Owen's greatest dream was a "Grand National Moral Union of the Productive Classes," which was a

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pyramid of producers' cooperatives with trade unions at the base.[8] He probably reached the high point in popularity when, in 1833, the Grand National Consolidated Trades Union was formed. It soon had over half a million members.

Robert Owen, like so many other socialists before and after him, fell prey to the inveterate fallacy that things and services exchanged should be of equal value. The error blocked and misled economic analysis for more than 2000 years since Aristotle first uttered it. If it were true, "one man's gain" would indeed be "one man's loss." But in reality only disparities in the value attached to economic goods lead to exchange. Things and services are traded because people attach a greater value to the goods they receive than to those they give in exchange. Both parties profit from a voluntary exchange; "one man's gain" is also "another man's gain."

Owen's life-long ambition to create workers' cooperatives probably sprang from his incapacity to understand the nature of trade and commerce. It led him to a predilection for a return to simpler modes of production, in a self-sufficient community. His New Harmony in Indiana was just the first installment toward his Utopia. It fared ill from the beginning because it misread human action and sought to return to the economic ways of primitive times.

The Chartist movement, which was most active between 1838 and 1850, depended much on Owenite ideals. It asked only for political changes. But many supporters expected these to be the keys to economic and social changes. Political representation of the poor, especially industrial laborers, was expected to lead to government measures and policies favoring these groups. The movement depended for encouragement and support on trade unions, which in turn savored the loud acclaim by the Chartists.[9]

The Intellectuals' Liaison with Labor

The Fabian Society, founded in 1884 and active ever since, is desirous of a similar relationship with labor. It attracts the intelligentsia of the labor movement, and provides it with opportunities for expression and discussion. In time, its membership exceeded 5,000, some of whom are the political and social leaders of Britain. The principal activity of the society is the promotion of socialism by means of meetings, conferences, seminars, summer schools, by conducting research and publishing books, pamphlets and periodicals.

But it is rather awkward for this tiny class of British intellectuals to wax eloquently on the needs of the working class and speak convincingly on its deliverance from capitalism if few, if any, members are or

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ever have been members of the working class. How convincing are Fabian asseverations and protestations coming from the mouths of intellectuals who know of working people only through their servants? To bridge the credibility gap, Fabians need to associate with the agents and spokesmen of labor and invite a few to join their elitist society. Supportive of trade unions and affiliated with the Labour Party, they may wax about the needed "reconstruction of society in accordance with the highest moral possibilities."[10]

Fabians promote a gradual introduction of socialism, rejecting the revolutionary, political action approach to proletarian power as advocated by Karl Marx. They prefer John Stuart Mill and Stanley Jevons to Karl Marx, and regard the state as a political machine to be captured and used for the promotion of social equality and economic transfer.

Fabians generally lack the Marxian commitment to ruthless implementation of a socialist command order. And yet, wherever they come to power they are tempted to curtail the destructive powers of labor unions. But they must be ever mindful of the fact that the votes of organized labor constitute the socialistic political power base. To question this base and oppose its leaders, or impugn the legal privileges and immunities of unions, is to invite political disaster to socialistic administrations. Therefore, they seem to have no choice but to cater to union leaders and accede to their demands.

To appease them and secure the peaceful cooperation of the unions, Fabian administrations may offer labor leaders important positions in government. Union officials may staff the department of labor, the labor relations boards, and other offices important to unions. Fabian governments may offer more permanent privileges in exchange for temporary union restraint and cooperation. Senior union officials approaching retirement age may count on appointments to ambassadorships in important foreign countries, or be granted prizes and titles that confer personal honor and prestige. In short, Fabian administrations seek to befriend union leaders rather than confront them. They proceed with socialistic prudence, which is conformity to the rules of unionism.

Ramparts Against Competition

Over the years the Society included such well-known persons as Beatrice and Sidney Webb, Graham Wallas, Ramsay MacDonald, George Bernard Shaw, and many others. It is difficult to appraise their positions on trade unions, which may rest on different doctrines and theories. But it is most appropriate to cite

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Sidney and Beatrice Webb who cemented the Society-union relationship with their voluminous writings on the history of trade unions. They devoted six years' investigation to the task of giving a scientific analysis to trade unions in Britain. In the *History of Trade Unionism,* published in 1894, they traced the origin and growth of the union movement. Three years later they added *Industrial Democracy,* which deals with the structure and functions of trade unions. Both volumes reveal the spirit and method of "Historical Economics" that painstakingly presents voluminous data on places, people and events, but carefully avoids causal explanations. The authors venture into the domain of explanation, which they call "economic generalization and abstract theory" only in the last part of *Industrial Democracy.*[11]

Both volumes build on a particular version of the exploitation theory and arrive at a powerful advocacy of unionism. They do not charge the impairment of competition for "the tendency of wages to fall to a minimum," as some eminent economists had done, nor do they, in a Malthusian fashion, lay the blame on the reproductive powers of man. They blame competition itself for a presumed tendency for wage rates to fall to exploitation levels.

The isolated workman, unprotected by anything like a trade union, always gets the worst of the bargain. He is too poor to wait, too ignorant about market conditions to bargain intelligently. "The capitalist employer will take full advantage of his strategic strength, and beat each class of wage-earners down to the lowest possible terms." Even an intelligent, far-sighted, and public-spirited employer is not master of the situation; "he is constantly finding himself as powerless as the workman to withstand the pressure of competitive industry ... This competitive pressure pushes him in sheer self-defense, to take as much advantage of his work-people as the most grasping and short-sighted of his rivals."[12] The manufacturer is "squeezed" by the wholesaler who is "squeezed" by the shopkeeper who is pressured by the consumer who applies a "persistent pressure on sellers, which, transmitted through the long chain of bargainings, finally crushes the isolated workman at the base of the pyramid."[13]

The Role of Competition

The Webbs unfortunately never grasped the meaning and functions of competition in the market order. Where they saw antagonism about incompatible interests, there actually is a drive for excellence and pre-eminence in cooperation and want satisfaction. Competition assigns to every member of society that position in which he can best serve

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all other members. It selects the most able man who is willing to perform a given task. Competition is no fight that creates victors and vanquished. It forces sellers to outdo one another by offering better and cheaper goods and services, and forces buyers to outdo one another by offering higher prices.

If the Webbs had analyzed both sides of the exchange, they might have arrived at quite different conclusions. They looked at the one-sided competition of the sellers of labor outdoing each other by offering their labor at lower and lower prices, until they are "crushed at the base of the pyramid." They completely ignored the competition by the buyers of labor to outdo one another by offering ever higher wages. If they had looked at the buyers only, they would have foreseen a crushing of isolated employers "at the base of the pyramid." Perhaps they would have seen an urgent need for "employers' organizations and associations" to avert the disaster.

Both Sides Benefit

In reality, competition is bothsided, assigning to every worker an income that reflects his contribution to the production process. If, for any reason, an employer should offer more than a laborer should contribute, he would suffer losses. If he should offer less, leaving a profit margin from the employment of particular labor, he himself and other competing employers would want to employ additional labor, which would raise wage rates again to the very margin of productivity. In short, in the competitive market order every worker tends to earn a wage that corresponds to the value of his contribution to the production process.

The crude exploitation doctrine resting on a misinterpretation of competition led Sidney and Beatrice Webb to hail trade unions and labor legislation enforcing a "common rule" of wage rates and working conditions and preventing "industrial parasitism," as the guardians of decency and prosperity. Nevertheless, they revealed a remarkable understanding of the potential dangers of trade unions in the form of mass unemployment. They recommended a rule for union conduct that would, if it were ever observed, alleviate most of the known union evils.

The Webbs were careful not to place the blame for stagnation and unemployment on trade unions. But they did not hesitate to warn against excessive rises in labor costs. "It will not pay them," they cautioned, "to obtain a rise of wages, a shortening of hours, or improved conditions of sanitation or safety at the cost of diminishing their own continuity of employment. To put it concretely, whenever the percentage of the unemployed in a particular industry begins to rise from the 3 or 5 per

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cent characteristic of 'good trade,' to the 10, 15, or even 25 per cent experienced in 'bad trade,' there must be a pause in the operatives' advance movement." Only if there are no restrictions on the number of workers entering the occupation, and all union members are fully employed, should there be any further advance in wage rates and other labor costs.[14]

This is cogent economic reasoning. But trade unions throughout the nonsocialistic world steadfastly ignore it. They make their demands for "more" and "more" although half their members may be on the unemployment roll. This percentage would be larger yet if all willing workers held at bay by union rules and picket violence would be added to the jobless rate.

A Source For Social Justice

Many practical reforms can be traced to the work of Fabians; but the Webb warnings about unionism remained rather unheeded, especially in Britain. Much of the impact of Fabianism has been through the dissemination of Fabian ideas among teachers, civil servants, politicians, and trade union officials. In the United States the work of the Society is felt in colleges and universities where it has touched two generations of educated Americans. In American politics the socialists would not be tutored or guided by the Fabian intelligentsia.

For several decades Norman M. Thomas (1884–1968) was the undisputed political leader of American socialism. He was a candidate for governor of New York once, ran twice for mayor of New York City, and ran for president of the United States in every election from 1928 to 1948. He lauded "the labor movement as the single potential source for social justice in American society," offering "important immediate amelioration" to the problems of automation and unemployment.[15] To Fabian socialists, trade unions are a potential cause for stagnation and unemployment; to Norman Thomas and his followers unions promise hope and relief from unemployment. To Thomas automation was the root of all evil; unfortunately he did not explain why the problems of automation are felt most painfully in unionized industries.

Norman Thomas was a political socialist searching for political solutions. He called upon unionists to join him in the political battle, forsaking all efforts at labor-management cooperation. "The problems faced by the unions are national in scope and require democratic social planning if they are to be solved."[16] All roads to social justice in socialism lead to Washington.

It is disheartening that after more than two hundred years of economic thought and teaching, some people continue to view "automation" as the

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root of all evil. They steadfastly refuse to see that "automation" merely is another label for production with better equipment. It makes human labor more productive, raises wage rates, and affords more comfort and leisure. As it raises labor productivity it actually increases the demand for labor and creates more employment. Efficient tools and equipment are common blessings to Americans; they are so common indeed that men forget to appreciate them and pay their praises.

—FOOTNOTES—

[1]Adam Smith, *The Wealth of Nations,* 1776 (New York: The Modern Library, 1937), Book I, Chapter V, p. 30 *et seq.*; David Ricardo, *The Principles of Political Economy and Taxation,* 1820 (New York: Dutton, Everyman's Library, 1973), Chapter I.

[2]*Labour Rewarded: The Claims of Labour and Capital Conciliated; Or, How to Secure to Labour the Whole Products of its Exertions* (London: Hunt-Clarke, 1827), p. 75.

[3]*Ibid.*, pp. 76–77.

[4]*Value, Price and Profit,* ed. Eleanor Marx Aveling (Chicago: Charles H. Kerr & Co., 1910), pp. 126–128.

[5]Cf. also *Capital,* 1867 (London: Lawrence and Wishart Ltd., 1959), Vol. I, Part VII, Chapter XXV.

[6]Cf. Hans F. Sennholz, "Tensions in Poland," *The Freeman,* May 1981, pp. 259–271.

[7]Lloyd Jones, *The Life, Times, and Labours of Robert Owen,* 1890, (New York: Charles Scribner's Sons, 1919); Frank Podmore, *Robert Owen* (New York: D. Appleton & Co., 1924); William Lucas Sargant, *Robert Owen and His Social Philosophy* (London: Smith, Elder & Co. 1860); J. F. C. Harrison, *Quest for the New Moral World* (New York: Charles Scribner's Sons, 1969).

[8]*Lectures on an Entire New State of Society* (London: Strange, 1830); Cf. also *A New View of Society, and Other Writings,* 1813–1821 (New York: Dutton, 1927). Cf. William Lucas Sargant, *ibid.*, pp. 325, 326.

[9]Earnest Charles Jones, *Selections From the Writings and Speeches of Earnest Jones,* ed. by John Saville (London: Lawrence & Wishart, 1952); Thomas Carlyle, *Chartism* (London: J. Fraser, 1840); Julius West, *A History of the Chartist Movement* (London: Constable & Co., 1920).

[10]*Fabian Tracts,* Nos. 1 to 133, London: The Fabian Society, 1907; M. Margaret P. McCarran, *Fabianism in the Political Life of Britain, 1919–1931* (Chicago: The Heritage Foundation, Inc., 1954); A. M. McBriar, *Fabian Socialism and English Politics, 1884–1918* (Cambridge: University Press, 1962); Anne Fremantle, *This Little Band of Prophets* (New York: The Macmillan Co., 1960); G. D. H. Cole, *Fabian Socialism* (London: George Allen & Unwin, 1943); Margaret Cole, *Beatrice Webb* (New York: Harcourt, Brace & Co., 1946), also *The Story of Fabian Socialism* (Stanford: Stanford University Press), 1961.

[11]*The History of Trade Unionism,* 1894 (London: Chiswick Press, 1911); *Industrial Democracy* (1897), printed by the Authors For the Trade Unionists of the United Kingdom, 1913.

[12]*Industrial Democracy, ibid.*, p. 662.

[13]*Ibid.*, p. 671.

[14]*Ibid.*, p. 739.

[15]*Socialism Re-examined* (New York: W. W. Norton & Co., 1963), p. 248; also *The Choice Before Us* (New York: Macmillan, 1934).

[16]*Socialism Re-examined,* p. 247.

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Raymond Polin

THE ROLE OF THE AMERICAN POLITICAL PARTY SYSTEM

THE Constitution of the United States of America nowhere mentions political parties or otherwise indicates their utilization in the American system of government.

But political parties are instrumental in moving that governmental system, which derives nationally from the emergence of the Federalist and Anti-Federalist parties, respectively in support of and against ratification of the Constitution. And that governmental system could not operate according to its past and present character without political parties. For that governmental system is one that political scientists term *party government*.

The matter becomes more comprehensible when we distinguish between the *form* and the *character* of the American system of government. The *written Constitution* provides that, "The United States shall guarantee to every state in this Union a *republican form* of government" (Article IV, Section 4, emphasis added). But the *unwritten constitution* that supplements our written Constitution provides a *democratic character* to the American system of government, and it does so by the manner in which American political parties operate and the functions they perform.

Democracy and Republic Explained

We may note at this point, therefore, that American constitutionalism consists in faithful adherence to both our written Constitution and to a traditional set of principles and practices, some of which were already in place and some of which de-

Dr. Polin, professor of government and politics at St. John's University, New York, is the author of *Modern Government and Constitutionalism*. He has contributed occasional articles to *The Freeman* for the past twenty years.

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veloped after ratification to implement the Constitution. We may note here, also, that this American system of constitutional government has evolved as a *democratic republic*, and that most Americans do not understand precisely the meaning of these two terms and how they may be found either in combination or one without the other.

The meaning of democracy is better understood by Americans, thanks in good part to Abraham Lincoln's popularization of the phrase "government of the people, by the people and for the people" and Thomas Jefferson's dictum that "governments are instituted among men, deriving their just powers from the consent of the governed." Their dictionaries tell them, clearly and correctly, that democracy is "government by the people," and they are generally aware that this requires both majority (or plurality) rule and its limitation by minority and individual rights.

Unfortunately, there is not sufficient comprehension among Americans of the meaning of a republic, and so we sometimes hear the erroneous pronouncement that "we are a republic and not a democracy." The truth is that we are both a republic and a democracy.

But what is a republic? Very simply, a republic is a form of government not headed by a king and where a public office cannot be inherited or owned. Under a *res publica* (a thing of the people), the government, its land, and its property belong to the people; whereas under ancient forms of absolute despotism, the people, the government, and the nation's territory and property all belonged to the ruler.

In the eighteenth century, a republic was usually thought of as a representative form of government with a legislature elected by qualified male citizens. In the twentieth century, a republic is sometimes *democratic* (as in the United States of America, France, Ireland, Israel, and Italy); sometimes *communistic* (as in the Union of Soviet Socialist Republics, People's Socialist Republic of Albania, People's Republic of China, Socialist Republic of Vietnam, and Socialist Federal Republic of Yugoslavia); and sometimes *fascistic* (as in the Third Reich of Nazi Germany under Adolf Hitler, the Fascist Republic of Italy proclaimed by Benito Mussolini in 1943, the falangist State of Spain under Generalissimo Francisco Franco, and many of the dictatorships of Latin America). Thus, a republican form of government neither precludes nor entails democracy.

Limited, Constitutional Government

Under a governmental system that is characterized by constitutionalism and democracy—be it a republic such as the United States of Amer-

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ica or even a monarchy such as the United Kingdom, Denmark, the Netherlands, Norway, or Sweden—an essential feature is that the authority and processes of government are limited by constitutional provisions, tradition, institutional practices, and various groups.

Among these counteracting groups are such different organized and unorganized types as are brought to mind when we mention the media, political parties, civic-action associations, labor, industry, agriculture, religion, education, and the scientific community. Where permitted to operate, they all serve as counterweights that limit government by tending to restrain it from acting harmfully to them and to constrain it to act beneficially to them.

Free media are leading performers of such a dual negative-watchdog and positive-creative role in an open society. Free political parties are quite similar to free media in that both are initiators and communicators of proposals: they make proposals and recommendations or accept them to broadcast to the public and call to the attention of government. As is also the case with our free enterprise economy, they are free because they are not, in general, operated by government or unduly subject to its control.

Political parties play an additional role in maintaining democratic, constitutional government, however, in that they are involved in effective action as well as discussion: they are at "the cutting edge" of enactment into law and execution of policy. Thus, under a genuine democracy—which must be differentiated from many a so-called "people's democracy"—political parties are indispensable to its functioning and the preservation of its nature.

Observe the use of the plural here—political parties—for where only one political party is permitted, there is neither constitutionalism nor democracy. There may be a republic, but it will certainly be a case of authoritarian pseudo-constitutionalism and pseudo-democracy if it be a one-party system of government. Authentic constitutionalism and authentic democracy require that there be an adversary system of political parties that operate freely in the interest of the public, their members, and their clients, but not a party that is a controlled instrument of the government.

Fewer Party Jobs and Favors

In the past, American political parties were customarily looked to for jobs and favors by the party faithful and contributors. Because of the development of a merit system for the civil service that is based largely on competitive examination and the dispensation of welfare and unemployment benefits by government agencies instead of by party

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bosses, many who formerly clung to the party and tried to keep in its good graces now look directly to government for such help and ignore party channels. As a result, party control over its adherents has greatly lessened, and its influence in neighborhoods has also gone down as community-action and civic-improvement groups have stepped up their activities. In addition, party discipline over legislative members has obviously decreased: today's legislative party leaders often cannot "whip into line" the increasingly independent-minded representatives of the people who may be enrolled in the same party. But those seeking to advance their interests still make substantial contributions to political candidates, parties, and action committees, especially in this time of super-expensive television campaigns.

Nonetheless, the system of party government prevails and flourishes in America: one party is usually in control of government at the Federal, state, or local level and often of both its executive and legislative branches. In modern national states where limited, constitutional government is practiced, there is either similar control by one party or control by a coalition of parties, which is simply an alternative model of party government. In both cases the central idea of party government is represented: control and direction of the government through the agency of political parties.

Two-Party System Workability

Although complaints are heard that the American two-party system is too narrow in its representation of the electorate, a number of important points in its favor may be listed. It is less confusing to the voter. It makes it easier to arrive at a legislative working majority and decisions instead of having intra-house stalemate. The two major parties make overlapping appeals to the same middle-of-the-road largest section of the electorate; therefore the two-party system neither leads to polarization and eventual head-on conflict of political segments nor to disturbing, extreme alteration of governmental policies and behavior when the opposition is voted in. The average citizen usually finds himself in agreement on enough items with either victor and not sufficiently threatened to become subversive or violent. Also, he knows the time of the next election that will give him an opportunity to vote for a change of results.

The two-party system in America therefore undeniably produces desiderata of the highest order: a unifying consensus, a working majority that is able to effect decisions, and a continuity of successful action that may be called dynamic equilibrium. Dynamic equilibrium may be de-

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scribed in this sense as keeping government in pace with new conditions by bringing about rational adjustment or change in its policies and activities.

Free Parties for Free Government

The political establishment in America and elsewhere has been under constant attack by disaffected elements who are impatient with imperfections and delays and who therefore denounce our political parties as "system-maintenance instruments." And almost everyone expresses some dissatisfaction with the excessive costs and wearisome duration of campaigns and with the constantly broken promises of those who are elected. Perhaps this criticism may bring about some improvements in the way we elect our public officeholders. Nonetheless, abandonment of the present system of elections and party government is not favored by more than a very few.

The preponderant view of the American public about the role our political parties play continues to be what Calvin Coolidge voiced for them in a quieter time when he wrote (*New York Herald Tribune,* 30 December 1930):

> We cannot weaken or destroy political parties in the United States without weakening or destroying the rule of the people. The party system has been adopted because of necessity. It has been the most efficient instrument of maintaining free popular government. No other method is effective in putting into operation the theory of representation. . . . Those who support party organization and submit to party discipline are supporting the only course yet discovered for orderly government by the people.

Partisan Elections Promote Freedom

No one-party political system, however, can provide such free government by the people; and it may be doubted that a multi-party system has the potential to do so in America. But the two-party system has a demonstrated record of success in America that deserves proper appreciation, especially for its role in promoting political education and freedom. The continuing debate that goes on between our two major parties and their affiliated politicians accomplishes the function of educating the citizenry on public matters and issues more fully, accurately, and convincingly than does a governmental ministry of information or propaganda in a non-democratic society.

Our free media, of course, deserve to share major credit with our free political parties for this achievement, but our principal concern here is with recognizing the contribution of our political party system to our way of life. Accordingly, we should be aware that our adversarial political parties and their elected

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officials and candidates carry on educative, apportioning, and countervailing functions that are essential to the nature and operation of our democratic republic.

Two-Party System Promotes Unity

It is America's good fortune that our Democratic and Republican parties, instead of polarizing the public, help to unite us nationally by largely duplicating each other and bringing together a broad section of the political spectrum, including also their more liberal and more conservative wings and personages.

The Democratic and Republican parties also serve to integrate and coordinate the attitudes, policies, and activities of government in America. Thus, they serve to unite our various governments and move them in the same general direction instead of at cross-purposes. It is no accident or mere coincidence that the national, state, county, and local committees of both parties mirror each other and are patterned on our governmental levels and units.

The role of our political parties, then, is to help our team of governments pull together in a dynamic equilibrium by giving them common purposes and shared programs in the public interest. The American political parties help link our governments with each other and with the people in a constantly interactive system of democratic-republican constitutionalism that preserves our basic freedoms and promotes our moral and material progress.

Joseph Fulda

The Cheapest Means of Payment

WE were sitting in my mentor's study discussing the vagaries of the teaching profession when he remarked: "You know, Joseph, we must pay for everything in life, and generally the cheapest way is with money." I chuckled, but was struck with the insight. And on the way home later, I found myself asking "Why?"

In this short piece I would answer that question. Free market economists define money not as that which is "legal tender, for all debts public

Joseph Fulda is Assistant Professor of Computer Science at Hofstra University and resides in Manhattan.

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and private"—i.e., what *government* accepts or *obliges* others to accept as payment—but rather as the most marketable commodity—i.e., what *people* most *willingly* accept as payment. It is true, to be sure, that our money—unbacked legal tender as it is—is also most marketable; we make the distinction, however, because the answer to our question depends on the defining quality of money, not on any incidental attributes.

Money is so marketable in part because it *has been* so marketable and the recipient is thus assured that he will be able to use it as a means of exchange for goods and services of direct use. (This is a reason why once-backed money can so long survive by government fiat.) What is really desired, of course, are goods and services of direct use. In a specialized economy such as ours—or any modern economy—the chances are quite small that one person's surplus goods or services will be precisely those needed by his trading partner. To pay his partner in exchange with these, then, would necessitate his giving more. For what he offers is neither of direct use nor easily marketable (or as easily marketable as money) in exchange for items of direct use. The matter is made even worse when the payment will be with such intangibles as favors or other private services for which there is almost no general market; for knowing that situation the trading partner is likely to ask for far more than he otherwise would. He will ask, as is customary, for whatever the market will bear. And the market will bear much when the supply is almost unlimited and the demand almost nil.

Economic analysis reveals that payment in kind will have two components: (1) the market worth of whatever is received in exchange, and (2) the market cost of transferring the items received into items of direct use or, alternatively, the price the recipient is able to charge for receiving something of lesser utility in exchange for something of greater utility. This second component merely confirms that before an exchange both parties must believe that they will be better off. This does not mean, however, that whoever offered payment in kind—perhaps in intangibles—is actually better off later, nor does it mean that he would not have been still better off had he offered a commodity which is more marketable—money. Money, after all, is the cheapest means of payment.

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Helga Malloy

Wealth, Socialism and the Free Market

WHY do some people ardently believe in socialism and others as passionately oppose it? The question had puzzled me for years until the answer came unexpectedly from a Toronto disk jockey whose favorite theme between songs used to be the coming socialist millennium which he, like many others at the time, regarded as inevitable.

"Although my views haven't changed," he was saying not long ago, "I don't talk or argue about politics any more. I now realize that no matter what people say they believe, there is always an underlying reason. That reason is self-interest."

How remarkable, I thought, that he today and Adam Smith over two centuries ago should have reached the same conclusion. Yet they interpret their self-interest quite differently, the disk jockey favoring a regulated society in which to live, Adam Smith an open one. Why?

Mrs. Malloy of Toronto is a free-lance writer specializing in science.

This must be, I think, because they picture the economy as a whole quite differently. Such a visualization is of course such an impossible task that probably most people don't bother to try, the exceptions being socialists and believers in the free economy. But their mental pictures of it, I conclude, must be as different as a single Golden Apple is from an apple tree that produces them in countless numbers.

The Golden Apple Theory of the Economy

Socialists, or Golden Apple theorists, to give them a name less emotionally toned for many people, seeing the economy as a unit, naturally look for one numerical figure to express it. Presto, one appears. It is the gross national product, or GNP for short. Now it is obvious that if I get more of it than you do, you will get less. And vice versa. There is no escape from this conclusion. Therefore, it follows that this is a compet-

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itive world, a dog-eat-dog existence in fact, where the powerless poor get poorer and the powerful rich get richer, unless they are forcibly restrained. This gives Government an essential *moral* mandate to be the restrainer and gives true believers in Golden Apple theory the driving motivation to work tirelessly toward making it a political reality, convinced that their motives are of the highest.

The theory began modestly enough in the minds of a few intellectuals. But not surprisingly, once it took political root, it eventually became irresistible to every government in the world. There can not be a person living today who is not profoundly affected by it, one way or another. Assists were undoubtedly provided by the two major World Wars which provided the necessity for the warring governments to seize control of all economic activities in their respective countries. And once this pattern had become established, sheer momentum helped to carry it along at war's end. This would no doubt have slackened over time however, had it not been for the tireless efforts of dedicated Golden Apple theorists.

Through the years they have naturally sought positions in which they could have the greatest influence. The most direct route is of course politics, in both elected and permanent positions. Union leadership runs a close second. The media, which provide a very wide choice of possible careers, also exert strong appeal. So does social work, in teaching or in hands-on experience in implementing Golden Apple theory. Then there is the broad field of education, from the primary grades to university, providing the opportunity to persuade future as well as present generations. Curriculum development, policy making and teacher training are obvious choices. In the university, the social sciences offer the most direct means of promoting Golden Apple theory among impressionable and idealistic youth.

Rewards for Success

The payoffs for success in these occupations have been power, prestige and for some, a first hand in the till. But these are easily self-justified as deserved rewards for thinking that one thinks more about the welfare of others than of one's own.

That the Golden Apple theorists have been successful there is no doubt. It is now politically entrenched that Government has a moral mandate to take charge of the GNP for the purpose of dividing it equitably among the populace as a whole. It is also taken for granted that Government is responsible for its care, nurture and growth. This task is theoretically made easier by nationalization of the means of production. But eventually, after some

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trial runs here and there, the people in the West have generally settled for what they believe to be a middle of the road "mixed economy," which however leaves Government's main mandate essentially undisturbed, no matter which political party happens to be in power.

Thus these governments have willingly assumed the task of patting their Golden Apple into shape, filling in its cavities with handouts and subsidies, flattening its "excess profits" bumps with extra taxation, stimulating its growth with tax cuts here and subsidies there—and when this fails, as it does, inflating it to create at least the illusion of growth. "Fine-tuning the economy" was the term used to describe all these activities until the difference between the intention and the results became too embarrassing. This had no effect on the activities themselves, however, which have a momentum of their own even when efforts are made to make them stop, as in the United States and Great Britain. In fact they continue to grow everywhere in such number and complexity that there is less and less of the Golden Apple to be divided among the populace because Government itself eats up more and more of it.

The Free Market in Contrast

In contrast, those who believe in a free market economy see the unitary figure of the GNP or Golden Apple as meaningless, mainly because it includes not only a country's wealth but the cost of dividing it up as well. They see the whole economy instead run by free and responsible individuals voluntarily exchanging goods and services to mutual advantage (otherwise no voluntary exchange would be taking place). They see Government's role as the important and necessary referee, ready to blow the whistle when an exchange is identified as *not* voluntary but forced.

Because everyone in the entire population is a customer, needing to be supplied with goods and services, those who believe in the free market see it as basically and willingly *collaborative*, not competitive in its essence as is the case with Golden Apple theory. The only competition that exists in a free market is between suppliers vying with each other for the customer's favor, that is for the benefit of you and me. Overall this sends prices down and quality up and keeps everyone on his toes.

"Robber Barons"

"But what about the poor, the downtrodden, the disadvantaged, those unable to be responsible or to look out for themselves?" That is the question always raised by Golden Apple theorists who see society as composed of powerful manipulators and the powerless manipulated. They answer it by pointing out that Gov-

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ernment *must* assume responsibility for everybody in order to be fair and protective of everyone's rights.

But is this pessimistic view of human nature true? In a genuine free market, its freedom protected by government, how does human nature behave? Is an optimistic view possible from the existing facts?

Not many genuinely free markets have existed in the course of history. However the 19th century does provide an exception, imperfect though it was. It was then that our great charitable institutions, both local and international, were voluntarily founded. Also founded were schools, hospitals, research foundations, libraries, museums, and art galleries.

Why did the founders of these great institutions do what they did? Golden Apple theory has it that they were in fact "Robber Barons" who obtained their riches by ruthless competition, theft or exploitation of the powerless. Then in later years they either tried to whitewash their record by donations, or, to give them the benefit of the doubt, felt guilty enough to try to expiate their sins by contrite giving.

But is this a true picture? Is it not a distorted one, seen through the lens of Golden Apple theory? Much has been made of the faults of the 19th century—its slavery and child labor (both corrected during it), the colonialism of "the White Man's Burden," woman's role as subservient helpmate, confined to children, church and kitchen, for example.

Nevertheless, compared to our anxiety-ridden, prone-to-violence 20th century, the 19th was more quality-conscious, civilized and peaceful; not only were great institutions founded but the sick were looked after and the starving fed. The fact that personal freedom and responsibility (which go together like the two sides of a coin) were taken for granted went far toward encouraging people's creative responses to life's challenges, personal feelings of optimism, gratitude for fortune's favors and personal commitment toward helping the less fortunate.

The founder whose life-story I know best, Andrew Carnegie, typified this spirit. He is said to have regarded the wealth he earned by a combination of energetic work and good fortune to be a "sacred trust" to be given away as wisely as his life experience had made him capable. He wanted young people to have a more advantageous start than he had, so he provided scholarships. He wanted to provide life-long learning opportunities for all, so he founded libraries. He wanted to ensure the well-being of teachers after retirement, so he provided pensions. The seeds he sowed have borne fruit generation after generation, both in the United Kingdom where he was born, and in North America where he made his fortune.

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His actions exemplifed the spirit of the times in which he lived. It is unlikely, I believe, that any of the 19th-century people so motivated could have foreseen a forced stop to their benevolent activities, or that the wealthiest among them would ever be called "Robber Barons." Somehow the 20th century seems the more impoverished in comparison, mainly perhaps because under the spell of Golden Apple theory we seem to have collectively forgotten how wealth is *created.*

The Sources of Wealth

Dictionaries define wealth as abundance, well-being, prosperity, felicity, happiness and independence as well as its moneyed meanings of riches, opulence and affluence. Wealth then is not merely money, that convenient means of exchanging goods and services among people. When the exchange is willingly mutual, both participants in the transaction are enriched in every sense of the word. When the exchange is forced, the money extracted becomes "the root of all evil," dividing rather than uniting people, spreading woe instead of weal.

Weal, heal, health and wealth are all related Old English words. One can enjoy a wealth of many things besides money, a wealth of love for instance. Traditionally, wealth was seen as one of the rewards for right living, as in the old couplet: "Early to bed and early to rise, Makes a man healthy, wealthy and wise."

But what is wealth's *source*? Where does it come from? How is it *created*?

It is not created in the 20th-century mode by taking money from some people to give to others; or by gambling, which is the same thing; or by lobbying Government to give more or take less; or by finding or plugging loopholes in Government's distributive regulations; or by listening to those who decry the "work ethic."

The source of wealth is clearly Nature herself, in all her myriad forms. But it takes work and the sharing of the proceeds with others in mutual exchange to increase Nature's wealth creatively. Even in the most primitive societies of today the hunters and the gatherers of fruits, nuts and berries are both enriched through sharing the results of their work.

But not all of Nature's gifts are so obvious. Most are hidden, discoverable only by science—that art of asking questions of her in answerable form. The Industrial Revolution of the 19th century, which brought about the greatest acceleration of wealth in the hands of more people than had ever occurred before, was due to the scientific discoveries of the previous two centuries, linked to large-scale technology, that fruit of man's inventive mind.

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Adam Smith, writing at the dawn of it, could see that its potential wealth would spread throughout society, which would become enriched with each exchange, but only if the mutual exchanges were free and unimpeded. He was right. The standard of living rose dramatically throughout the century. The arts and humanities flourished equally with progress in science and technology. But this only happened because the political restrictions to the spread of wealth which had existed when he wrote *The Wealth of Nations* were eventually removed, largely thanks to the stimulus of his insights upon those who set about to repeal the restrictive laws.

It is a provision of Nature that each person is unique in talents, abilities and interests. The apparent purpose of this uniqueness is to serve our societal interdependence. "No man is an island," as John Donne wrote over three centuries ago. The more we develop our own natural gifts to relate to others in mutual exchange, the greater they grow. This serves not only our own self-interest but that of others as well. The greater the number and variety of such exchanges, the greater the challenge, enrichment and inspiration of the individuals who make up society as a whole.

But this is not happening today nearly to the extent that it could. Again, as in Adam Smith's day, the main impediment is the maze of political restrictions and guidelines which interfere with wealth's creation and natural flow. The tragedy is for those people who are thus prevented from realizing what life could have meant for them. Among them are the unemployed as well as those who, full-time or part-time, devise, implement, impose, avoid or find or plug loopholes in the restrictions and guidelines. These people, and their name is legion, are thus impeded from finding their true calling and from creating new wealth, both spiritually and materially. Society as a whole is thereby greatly impoverished from what might have been.

Eleventh-Hour Rescue

But miraculously, an eleventh-hour rescue is again on the horizon, just as it was at the time of Adam Smith. Again the reason is that scientists have been quietly collaborating with the inventors of technology in exploring more of Nature's secrets. The result has been a multifaceted scientific and technological breakthrough in putting the new discoveries about the structure and behavior of atoms and molecules to use—representing an economy of scale never before seen. The accelerating growth of the highly visible field of microprocessors is being followed closely by lasers, photoelectric cells, crop improvement through genetic control, new light on disease

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control and the domestication of bacteria for manufacturing purposes, to name but a few examples from the many.

The future for the creation and spread of wealth from this new field of microtechnology looks almost unimaginatively great, with one important proviso. That is, if the lessons of history are taken to heart and the new wealth so created is permitted to flow freely throughout society without impediment. This would have the additional beneficial result of freeing Government to concentrate upon protecting the populace as a whole from all exchanges which are *not* voluntary and mutual, but forced, both within and outside national borders.

The problem is that this can only happen when Golden Apple theory with its corollary of Government responsibility for all of society's well-being loses its hold upon both the populace and upon Government.

Happily the *original* purpose of Golden Apple theory, still believed in by its proponents, was to equalize the opportunity for all to maximize their potential. This goal is shared by those who believe that the *means* to it is the free market of voluntary mutual exchange.

When Golden Apple theorists and believers in the free market agree to work together toward their shared goal, capitalizing on the lessons of the past, both good and bad, predictably wealth in its widest meaning will flow throughout society, challenging motivating and inspiring as it flows.

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Ernest G. Ross

The "Unproductive Investment" Prejudice

WHEN gold ownership was finally again legalized in America last decade, many of us free market analysts thought investment in the metal—and in other "hard" assets—had finally gained respect both from other mainstream investors and from investment regulators. How wrong we were. At least, we were not right for long; gold investors are once again being demoted to second-class citizenship.

The renewed bigotry against gold investors is exemplified by the label, "unproductive." As economist Joe Cobb pointed out in a *Reason* magazine article last year, that disparaging label has split the investment community—with hard assets investors legally forced to sit in the back of the investment bus. Prohibitions against investing directly in hard assets for IRA and Keogh accounts and forced reporting of gold and silver purchasers to the IRS—restrictions backed both by government officials and by many conventional stock and bond dealers—make the new investment prejudice amply clear. (And according to Representative Ron Paul of Texas, a host of new restrictions are contemplated.)

While the mood of hostility ought to be enough to make goldbugs march in the streets to protest, the issue goes far beyond any specific actions against hard assets. A more fundamental issue, which is getting little press, is whether the power to decide which investments are productive or unproductive should be the province of individuals or of government; the precedent inherent in the official bias

Mr. Ross is an Oregon commentator and writer especially concerned with new developments in human freedom.

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against gold implies that it is government's province at the moment.

It should not be so, and only one school of economics—an insufficiently heeded school—has satisfactorily explained why.

Economic Calculation and The Subjective Theory of Value

The Austrian economists, as they were called—most notably Carl Menger (1840–1921) and Ludwig von Mises (1881–1973)—were the first to observe that economic values are necessarily determined solely by individuals. Their values are based on their own specific living requirements and needs—which only they have the knowledge, opportunity, and insight to accurately determine. Menger called this viewpoint the subjective theory of value.

It was a theory with which Mises agreed, but to which he added an important insight. His insight was the application of Menger's theory to the field of political governance of an economy. Mises was first to demonstrate that government—because it has no *method* of accurately making the millions of daily value judgments for individuals—is consequently incapable of rationally substituting its judgment for theirs.

A simple way of stating this—and one which conveys the terribly serious consequences—it that the market is too complex for government to run, and therefore the *attempt* to do so ultimately requires the government to become the market—i.e., to take it over.

This is the danger of policies and proposals which classify the hard assets investment market as "unproductive."

Such government policies require that it do the following:

(1) Delegate to itself the final "right" to determine market values; (2) interfere in the natural division of labor of the investment market (by suppressing a segment of the market); (3) by proposed harsher tax laws and existing restrictions on gold, violate the property rights of investors and holders of gold (or at best, discriminate unfairly against those rights); (4) undertake the impossible task of deciding for investors which investments are better or worse for countless individuals' unique living requirements.

If this folly sounds familiar, it should. In principle, it is startlingly similar to the government's attempt until recently to decide which national airlines were most "valuable" or "most productive."

In fact, if not in precise words, under heavy airline regulation, we had a policy which mandated that only certain national carriers should be regarded as productive—while all "unproductive" ones (read: would-be competitors) were made to suffer the ultimate penalty of being locked out of the national routes; they were not

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just forced to the back of the bus—they weren't even allowed to board it!

By forcing airline investors to put their money into only government-approved air carriers, federal bureaucrats and politicians, as well as the protected airlines themselves, encouraged economic malaise in that industry: inefficiency; artificially high wages; high consumer costs; malinvestment (from which some of the airlines have still not recovered); snail-slow innovation; and, obviously, no serious competition.

Is this what we want in the investment field? Do we really wish to invite government to assume the power to make *basic* decisions about productiveness—when government's attempts to do so in other segments of the economy, such as in the case of the national airlines, has worked out so poorly? Surely not.

For as matters really stand, government overlordship of market value, of what is or is not a productive investment value, ends up in practice as nothing more than investment protectionism—which, in turn, is nothing more than political favoritism backed by the coercive hand of the state. The "productive" become the protected and the "unproductive" become the attacked—as gold investors are today. That may be a scenario which would fit snugly into the glove of a so-called national industrial policy, but it is not one which serves a free market in investments.

A Safety Valve

Still, the more pragmatic observer may ask, "Is this really a serious danger? After all, Americans can freely invest in most gold stocks (depending on state laws). They can even buy puts and calls in the metals markets. So what if they can't freely invest in hard assets *directly* for their IRA or Keogh accounts? My goodness, if we allow that, the next thing you know, people will want to own bushels of wheat, barrels of oil, and who knows what other kinds of tangible assets for such accounts!"

The proper first response to that sort of attitude should be: Well, whose investment is it, anyway? If a man wants to keep Tahitian sea shells in his account, what business is it of the government to forbid it? Maybe he's an astute investor who knows something about the sea shell market that the government doesn't.

But beyond the moral issue of free choice, there is the historically undeniable fact that *gold is, and for millennia has been, considered a metal of investment.* This derives primarily from gold's store-of-value characteristic in the market—but also from the metal's other qualities: divisibility, transportability, durability, and nearly universal acceptability around the world.

Unfortunately, it is precisely gold's

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continued and growing popularity as an investment asset which has led to renewed restrictions against it. No one should be terribly surprised. This has *always* been the case in economies dominated by fiat systems. Fiat systems' purveyors (and many beneficiaries, such as some stockbrokers who believe high volumes of fiat dollars will encourage high volume trading, thus giving the brokers more commissions) have found that gold investments have an embarrassing side-effect: they "show up" the intentions of fiat policymakers.

For instance, during a fiat boom, gold—when people are free to own it—can easily rise in value faster than the market in general. This tends to expose the worth of the boom by showing that it's largely "paper"—that is, the boom is more one of appearance than of fact. Hence, fiat policymakers would prefer—in any way they can get away with it, such as with current IRA and Keogh investment prohibitions—to inhibit gold's ability to expose the fiat fraud. Fiat governments wish to dampen the message of truth which gold investments send out for anyone to read—including those who might otherwise find the fiat policies unsuspicious and quite acceptable.

To answer the question of whether present prohibitions against gold investments are "really a serious danger," we must conclude: Yes, they are—both morally and economically—because they represent an attempt to at least partially erase, to obscure, the information which gold investments might convey about fiat money policies. This is information to which the public has a right if it is to be free to fully protect itself from the inevitable consequences of market distortions, earning power debasement, and the whole long list of economic degenerations to which fiat systems lead.

No Small Matter

The new attack on gold investments may superficially seem like a small matter. But it is another chapter in the old story of the war between government management and individual management of an economy, between coerced choices of investment values and free choices. If we wish to assure that the government does not become bolder and widen its attacks on gold—perhaps again leading to the infamous barring of private ownership of gold—then those Americans who favor liberty of investment must speak out now, while their voices are strong enough to stop and reverse the attacks. Let us never forget that most wars start with small events, which if not countered encourage escalation. Let us not let the "small" events of "unproductive" gold investment restrictions go uncountered, lest our government again begin a full scale war on gold.

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Robert Bearce

Free Enterprise—for All

Agriculture, manufacture, commerce, and navigation—the four pillars of our prosperity—are the most thriving when left most free to individual enterprise.
—Thomas Jefferson

"Capitalism stinks!"

That is the conclusion reached not long ago by the authors of a textbook on economics. The book further stated that our social problems can be solved only when American capitalism is destroyed.

Hostility toward free enterprise (capitalism) has not decreased over the years. There are many "public opinion molders" today who believe free enterprise has failed. They say inflation is caused by greedy businessmen and industrialists. Corporations are making "excessive" profits. Free enterprise and our economic system are ignoring the elderly, minorities, the handicapped, and poor.

These charges are false, but some people continue editorializing, preaching, ranting, railing, and voting against capitalism. They attack free enterprise as it relates to profits, competition, "Big Business," and corporations. Somehow, these aspects of capitalism are evil—"a threat to the consumer."

That open hostility aside, most Americans feel that free enterprise is good, not bad. Most of us understand that our economic way of life has given America prosperity and freedom unparalleled in the world. Capitalism has provided the greatest good to the greatest number of people. For over two hundred years, free enterprise has proven that it is the most efficient and effective way of ensuring progress, material well-being, and personal freedom.

Mr. Bearce is a free-lance writer in Houston, Texas.

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Unfortunately, we give lip service and a mental OK to free enterprise, but we do not really understand what it is all about. This sad fact is easily seen in the way most Americans react to the topic of "economics." A majority of us seem either confused or downright bored by "economic" matters and problems with our nation's economy.

On the other hand, most of us are critically aware of making a living—working at our jobs, getting our pay checks, paying bills, saving money, writing out checks, and paying taxes. We know from daily experience that these matters affect us and everyone around us. Yet, the subject of "economics" still seems to be something else—something far away, difficult to understand, unrelated to the daily affairs of life.

Making a Living

The truth is that making a living is not any more commonplace or everyday than economics itself. Economics and problems of our nation's economy are matters in which we are directly involved each day, regardless of the fact that many Americans think economics is something separated from paying taxes, purchasing a new automobile, or paying higher prices for groceries.

Unless we progress further than just saying that we believe in free enterprise, we are in trouble—deep trouble.

We need to take a thorough look at the free enterprise system and gain a better appreciation for it. We must understand the interesting hows and whys it works so well for us. If we continue shrugging at any mention of "economics," we will commit economic suicide. Freedom and human dignity will be destroyed. We'll pay higher taxes and higher prices for food, clothing, and housing. We won't be able to afford new automobiles, repairs on our homes, and medical care. A lot of us will be out of work.

Let's face the facts. First, what we know as capitalism, the free choice economy, free enterprise, private enterprise, or the free market really isn't a system at all. No economist or savvy politician invented it. Free enterprise is not a humanly devised plan for economic activity. Instead, it is the natural, *voluntary* collaboration of millions of individuals sharing their respective abilities, wisdom, aspirations, energy, skills, and creativity for personal good and the general welfare of everyone.

Free enterprise is industry, agriculture, finance, and commerce. Most important, it involves all of us—teachers, mechanics, nurses, clerks, students, corporation presidents, housewives, and store managers. Capitalism is millions of individuals cooperating freely to provide products and services for one another. We buy, sell, work, and produce, and thus

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manage our own economic lives as we choose.

Basically, there are three main principles to free enterprise: (1) We are free to think, choose, and act as we best see fit, not harming others in doing so; (2) We are rewarded for our labors in proportion to our individual abilities and to how much effort we are willing to put forth; (3) We have a right to private ownership of property.

Private property is essential to the success of free enterprise. Thomas Jefferson wrote: "The true foundation of republican government is the equal right of every citizen, in his person and property, and in their management." Unless we have full control of our labor, possessions, and income, we cannot truly say we live in freedom. Our right to private property enables us to use it and our energies for constructive, creative work. We strive, succeed, fail, produce, invent, save, invest, spend, and work to make a better life for ourselves and others. This is economic freedom. This is individual freedom.

Alexander Hamilton advised that "the only freedom worth achieving is a freedom which puts each of us at something he can do and sets before him as a personal and individual responsibility the management of his activity, relations, and possession so that in the end 'he owes not any man.' " That is the essence of free enterprise—*individual* freedom and *personal* responsibility. We have the right to make economic choices, and we accept the consequences of our decisions.

Free enterprise recognizes that individuals are capable of providing for themselves. Individuals—*not* the federal government—are responsible for arranging their own economic activities. We can, should, and will overcome difficulties in life when we are self-responsible. This is the real meaning of independence. We cannot be fully independent if we are not held responsible for managing our personal lives. In turn, we cannot be held responsible for our activities if government makes our economic decisions for us.

When free enterprise is allowed to work at its maximum, we achieve a justified sense of worth and dignity. We reap what we sow. Hard work, individual initiative, and personal responsibility are rewarded—not just from the standpoint of material prosperity but also from the standpoint of self-respect and personal fulfillment in life.

What more can we ask? The capitalistic free-enterprise system gives us the opportunity to realize a true sense of self-worth. Working freely in a free society, we also have shown that capitalism and the free market are the best way for producing and distributing wealth—wealth that has provided our high standard of living

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and the means to fight poverty, disease, illiteracy, and the like.

Important Economic Questions

Those individuals who foolishly think that "capitalism stinks" refuse to accept the truth about free enterprise. No other economic system—socialism, fascism, communism, or the welfare state—can ensure individual freedom and promote the general material welfare as capitalism has done. Free enterprise has succeeded because we have intelligently answered four important economic questions having to do with our daily lives:

(1) What goods should be produced? In what quantities?

(2) What services will be rendered to the public, when, and where?

(3) Who will produce the goods and perform the services?

(4) How will the goods and services be distributed? In other words, who gets what?

Free enterprise says that *free individuals*—not government agencies, boards, commissions, and so on—should answer the four questions. *We* decide who will produce and what will be produced. *We* make our own economic choices—deciding to work at the jobs we want, choosing to buy a stereo instead of a TV, or selecting one physician over another.

All of us are consumers, and free enterprise permits a sensitive market—a free market—to respond to our needs and wants. The "free market" is an accurate description of capitalism. Services and goods are produced freely in response to popular demand. Production and services are determined by what people want and how much they are willing to pay for what they want. This is cooperation and voluntary exchange in the free market. It is true economic freedom. It is individual freedom . . . and good "economics."

The success of the free market depends upon ethical, energetic competition. Competition opens the way for new ideas and superior productivity. Companies work hard to please the consumer who is always looking for better, less expensive products. If a business wants to succeed, it endeavors to build up a reputation for prompt, friendly, effective service to please the consumer and customer. Competition is generated by millions of consumers who have economic freedom to express their likes and their dislikes.

Competition is not a brutal conflict between companies. It is not economic warfare between corporations who are out to make millions at the expense of the average consumer. Rather, competition is a vigorous, moral expression of freedom. We are free only when we can cooperate voluntarily with other people and when we are permitted to make individual choices. Competition al-

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lows us to make those personal decisions and to act upon them. Business, agriculture, commerce, and industry attempt to fill our needs by striving to put out improved products and services. This is healthy, free competition.

Fruits of Competition

Free market competition leads to new products, better products, superior services, increased production, more jobs, higher wages, and ultimately a higher standard of living for everyone. When competition is based upon fair play in the free market, it brings out the best in business as well as in individuals. Working alone or laboring collectively as employees and management in an industry, we strive to advance ourselves by giving full expression to our abilities and energies. This beneficial spirit of competition can exist, though, only when we are permitted to keep the fruits of our labor—the "fruits" being personal income or profits.

"Profits" is another term which causes some people to frown. Like competition, profits are looked upon as being a bit immoral. This mistaken view of profits is growing, even among persons who otherwise say they support free enterprise. We should ask ourselves just what is wrong with competition and profits when neither involves the use of coercion or force.

Is it immoral for an individual to use his abilities and energies in constructive work as long as he does not infringe upon the freedom of other individuals to do the same? Is it wrong for one business to compete with a rival company in an attempt to provide an improved service or better product?

Certainly not, and both the wage-earner and wage-payer deserve paycheck and *profit*, respectively. When the energetic, reliable company makes a profit, it does so without the use of force. Customers willingly choose the firm's product over the same item offered by other companies. Just as the free market rewards the employee with a paycheck in return for hard work and personal effort, so free enterprise gives a just return to the hard-working company. The company's profit is proof that it has met its responsibility or goal of fulfilling the needs of individuals.

But don't some big businesses and corporations make excessive profits? No, even though their earnings might amount to billions, these industries do not reap "excessive" or "obscene" profits. A corporation's high profits can be misleading. Many people believe that profits go into the pockets of rich corporate executives who spend their time touring Europe or enjoying sun and sand in Jamaica.

Such a picture is false. Profits are

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the key to prosperity, and we should be thankful they reach into billions of dollars. Yet, the amount of profit from each sales dollar is much lower than what most consumers think it is. Actually, profits for the average manufacturer account for less than 5¢ out of each sales dollar earned by the industry. The remainder of the sales dollar (95¢) goes for taxes, operating expenses, depreciation, supplies, and wages for employees.

How Profits Are Used

Just what happens to a company's total profits of 5¢ out of every sales dollar? Are they squandered by corporate bosses? No, that 5¢ is divided between funds for reinvestment and funds to pay shareholders who have stock in the company. These shareholders are just ordinary, average people from all walks of life—professors, farmers, small businessmen, factory workers, and retired people. They have labored over the years, saved their money, and freely invested in the work of the corporation.

Besides paying dividends to shareholders, profits are used to improve and expand production. Profits are reinvested, providing business with needed capital. Capital—amounting to billions under capitalism—is put to work replacing worn-out equipment, constructing new plants, and otherwise building up a more efficient, productive enterprise. This capital reinvestment creates more jobs, higher wages, better working conditions, and more prosperity—prosperity that benefits all of us.

Where have some people obtained the senseless, absurd notion that profits can be too high—that there should be a limit to reaping the *just* rewards of hard work and service to others? How can profits be too high when they were made by free people *freely* making choices and *freely* paying for a product or service?

Profit-making should be encouraged, not scorned. Profits provide the fuel that keeps our economy going and growing. They are both the means and motivation for material progress. Profits stimulate the release of *human* energy—an energy more vital to free enterprise than petroleum, natural gas, or nuclear energy.

Creative *human energy* is unleashed when individuals are allowed to work voluntarily in the free market. We must be free to profit and to order our lives as we please without arbitrary government intervention. The role of government should be that of a referee or policeman. Its duty is to protect economic freedom, enabling individuals and businesses to work freely. Free enterprise operates smoothly when government authority is limited to defending individual freedom, protecting private property, and pre-

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venting fraud, violence, force, and theft.

"Every man," wrote Thomas Jefferson, "wishes to pursue his occupation and to enjoy the fruits of his labors and the produce of his property in peace and safety, and with the least possible expense. When these things are accomplished, all the objects for which government ought to be established are answered."

Many government officials today are ignoring Jefferson's insight into the purpose of government. Along with some educational leaders, journalists, and labor leaders, they claim that government should play an ever growing role in the economy. They believe that government is in the best position to plan future industrial, financial, and commercial activity. Supposedly, the business of government is business. They feel that the free economy has failed to meet the needs of the consumer. Thus, government should (1) crack down on business, and (2) help us manage our economic affairs.

Misconceptions

This critical view of business activity and individual responsibility is based upon many falsehoods and misconceptions. It takes the view that "If it is good for business, it is bad for the consumer." It suggests that workers and consumers should distrust the business community and trust government instead. Presumably, life is a battleground between helpless consumers and ruthless corporations, with government bureaucrats coming to the rescue of the helpless citizenry.

We ought to reject these misconceptions. Businessmen and consumers are tied together in joint economic activity that should work harmoniously, accepting responsibility and accountability for what we do. Businesses are a justified, necessary response to meet human needs.

Homes need to be built . . . we require dental care . . . automobiles must have gasoline. All of these needs can be fulfilled competently by different trades, professions, businesses, and industries. However, their ability to serve the consumer depends upon the *free* collaboration of five factors: natural resources, the labor force, management, capital (machinery, facilities, and equipment), and free choice for the consumer. Whenever government intrudes into one of these areas, economic trouble lies ahead. The Dallas plumber and the Baltimore physician suffer. All of us suffer. Factory workers . . . musicians . . . bricklayers . . . telephone operators . . . taxi drivers . . .

Those who want more governmental control of the economy believe that Americans will be ill-clothed, underfed, and badly housed if the federal government does not

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assume the role of being our economic boss. What these people are saying is that Americans cannot or will not provide for themselves in a free society. Nor will we voluntarily help those who suffer. Our fellow citizens will go hungry and will be deprived of medical care.

Therefore, we are told that economic stability can be achieved only through the combined force of government laws, social/economic programs, and Federal expenditures. The result is that business enterprise and individual endeavor are being increasingly controlled, inspected, regulated, coerced, and bridled. Instead of allowing individuals to make their own economic decisions in conjunction with business, the government has forced its way into the free market. Political activity has taken the place of free market economics as the way of deciding who gets what.

Through excessive taxation and regulation, government is destroying economic freedom. This economic strangulation endangers all of our freedoms. Alexander Hamilton advised that "power over a man's subsistence amounts to a power over his will." Government regulation of our economic activities will lead to total control of our lives, just as it creates inflation, causes unemployment, and otherwise undermines our material well-being.

The federal government's intervention into the free market has been so gradual that it is often difficult to see just how rapidly we are losing our economic and personal freedom. Actually, we no longer enjoy a *free* enterprise system. Through redistribution of wealth and through a multitude of laws and restrictions, we are becoming a welfare state—a sickly combination of diminishing capitalism and growing socialism.

The Tyranny of Socialism

Under the "planned economy" of socialism, the government owns and/or controls the *means* of production. All areas of the economy are in the hands of the government—commerce, agriculture, industry, health care, housing, and others. Under the welfare state, the government owns and/or controls the *results* of production. Money is taken from the producers in society and given to the non- or low-producers. So far, we have not suffered the consequences of pursuing a completely socialistic economy. Our continued path into the welfare state, though, is taking us closer to the tyranny of socialism.

As the government adopts more and more welfare-state programs, the incentive to work is dampened. This applies to both the wage earners and non-producers in the citizenry. Businessmen and hard-working taxpayers ask themselves why they should continue exerting themselves when the government will tax

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away their income for the benefit of others. Industrious individuals see little reason to work hard, save, invest, and expand economic activity.

On the other hand, the welfare state also destroys the incentive of the low-producer to strive harder. A business that is failing because it cannot or will not meet consumer demand simply calls upon the government to subsidize its losses. Instead of exercising more energy, ingenuity, hard work, and responsibility to achieve success, the business relies upon the federal government for help. Likewise, individuals will reject responsibility for their own lives when the government is ready to give them food, housing, and medical care.

This destructive influence of welfare-state economics leads to a sick attitude of "Let the federal government do it." When we begin thinking this way, freedom is in bad shape. Socialism and tyranny are just down the road. "No," some people might argue, "Americans will never accept socialism. We still have free enterprise, and we will keep it."

In response to such assurance, we ought to consider an ageless truth that says a person should not be held responsible for what takes place when his eyes are closed. He should, however, be held accountable for not opening his eyes in the first place.

Anyone who wants to do so can understand how and why free enterprise is being destroyed. Although some people honestly doubt that America is embracing socialism, current events clearly show that we have been heading toward a totally planned economy, this despite the efforts of some people in government to reject such attacks on freedom.

Through free market economics, we have enjoyed the good life of freedom and material well-being. This high standard of living, though, survives only as a result of *past* productivity. It is time we recognize that we are no longer living and working within a truly free free-enterprise atmosphere.

For too long, Americans have been *uninformed* and *misinformed* about free market economics and the nature of government power. We have been led to believe that business has caused our economic troubles and that action by the federal government is the solution. These mistaken beliefs must be corrected. Government is the problem, not the solution.

As soon as we overcome our confusion about basic economics, we will be prepared to fight for free enterprise. We will be able to defend what freedom we have left and restore all that we have lost at the hands of government intervention into our lives. Once again the true blessings of human dignity and individual freedom will be ours to enjoy day by day.

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The Coercive Utopians

THE COMMUNIST PARTY in America no longer amounts to anything, and the Socialist Party's hopes for making a splash in presidential years have not survived the death of Norman Thomas. Nevertheless, socialism marches on in a thousand different guises, requiring a whole new science of semantics to understand what goes on behind the acronyms and the alphabet soup profusion of organizations that Rael Jean Isaac and Professor Erich Isaac have investigated in their magnificently courageous book, *The Coercive Utopians: Social Deception by America's Power Players* (Chicago: Regnery-Gateway, 325 pp., $18.95).

The coercive Utopians are all those people who want to compel every last individualist in the country to renounce pluralism in favor of conforming to what Rousseau called the General Will. Unable to herd independent souls into parties that make honest displays of collectivist labels, the Utopians make effective use of euphemisms such as "economic democracy" and "national planning." The Isaacs quote a particular coercive Utopian, Derek Shearer, who told a conference organized by Ralph Nader that, where the "S" word, socialism, could not be marketed, "the word 'economic democracy' sells." It could be taken "door to door like Fuller brushes, and the doors will not be slammed in your face. So I commend it to you, for those who are willing to compromise on the use of the 'S' word."

The truly big weapon of the coercive Utopians is their ability to throw up a whole network of "spin-offs" from a few fundamental organizations such as the Institute for Policy Studies or the World Peace Council. Using a bewildering display of innocent-sounding names, the coercive Utopians have dominated the peace movement, manipulated the various causes of the Environmentalists, sent "Nader's raiders" hither and yon to define the "public inter-

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est" in an anti-business way, and penetrated the consumer movement to mark it for their very own. There is no "conspiracy" about this—it has happened as a natural "Left" adaptation of the science of "social engineering," a science that has had a respectable lineage going back to the early days of Public Relations as practiced by Edward Bernays and Ivy Lee.

Misdirected Missions

Many of the coercive Utopians mean well, but they don't know how to control the occasional conniving zealot who is willing to work full time in forwarding the "revolution." The Isaacs begin by telling the full story of how the Methodist Church was led to fund radical groups in South America and Africa. A young man, David Jessup, who had worked for the Peace Corps in Peru and was "scarcely a conservative," was asked to make a study of where the Methodist money went. Thinking to work for refugee aid within the church, Jessup became aware that something was amiss when, in 1977, his children came home from Sunday School with "rice bags" to be filled with money to be used for buying wheat for "Vietnam."

Tracing the movement of $442,000 in direct grants, Jessup discovered that much of the money was going to terrorist and totalitarian groups. The Methodist Board of Global Ministries tried to impugn Jessup's report as "right wing extremism." But Jessup stuck to his guns. Money had gone to five organizations that produced pro-Cuban propaganda. Other money had gone to the Indochina Resource Center that was distinguished by its defense of the murderous Pol Pot regime. Terrorists in southern Africa had received Methodist money, and the Palestine Liberation Organization had benefited by the church funding of support groups in the United States.

Jessup's criticism led to some changes—the General Conference of the church agreed to require all boards and agencies of the church to make a full disclosure of all cash and in-kind contributions to outside organizations. But Methodist money still went to the National Council of Churches, which the Isaacs describe as being "even more detached than the Methodist bureaucracy from the views of lay church members." The NCC in the Isaacs' estimation "looks upon the United States as an oppressor, both at home and abroad." It has urged the United States to recognize the PLO, and it has sent messages of greeting to victorious Marxist groups in southern Africa.

Collectivist Fronts

The Isaacs respect true pacifism, but they find most "peace" organizations to be equivocal on the subject. The symbol at the top of U.S.

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Peace Council literature "is a dove shaped into a clenched fist." The "Mobilization for Survival . . . intertwines Communist and peace organizations in its membership." Gil Green, a member of the Communist Party's central committee, served for a time as head of the Mobilization for Survival's labor task force. The peace groups, so the Isaacs tell us, "are concerned almost exclusively with U.S. disarmament." The Women's International League for Peace and Freedom's international president excused the Soviet invasion of Afghanistan by finding it "understandable" that the Russians had an "interest in having close relations with a neighboring country with which it shares a 2,000 mile border."

The Isaacs' story of the Leftist penetration and manipulation of the environmentalist movement is a classic reminder that the best can be the worst enemy of the good. There are thresholds of tolerance that shouldn't be crossed, but a 100 per cent clean environment is impossible in a world in which nature itself does a fair amount of polluting. There are ironies everywhere in the perfectionist's quest for absolutely clean air. Congress established auto emissions devices at great cost only to discover that the catalytic converter "may in fact be a major contributor to the growing problem of 'acid rain.' " Home buyers have been forced to pay through the nose for lumber simply because the wilderness buffs prevent the harvesting of timber that is about to decay. The delay in the Alaska pipeline hurt our foreign policy response to the OPEC oil price monopoly. And the current slowdown in granting offshore oil leases may be the harbinger of more troubles with the Arabs in the Nineteen Nineties.

The Isaacs observe that the media now serves as a shield of the Utopians. Well, reporters are recruited from Irving Kristol's "new class," and objectivity is notoriously something that does not go with the anti-capitalist mentality. To understand the intellectuals' undermining of capitalism the Isaacs invoke Joseph Schumpeter as a "better prophet than Marx." To Schumpeter's mind, the freedom to criticize that came with the development of the printing press "first served the capitalist order well because the intellectual attacked the remnants of the feudal order." But eventually the "new class" of intellectual "turned his criticism upon capitalism itself."

Marxism, said Schumpeter, wove together "those extrarational cravings which receding religion has left running about like masterless dogs," and the intellectuals bereft of a transcendent heaven, felt compelled to find Utopia on this earth. But Utopia without transcendence is an illusion.

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POWER AND PRIVILEGE: LABOR UNIONS IN AMERICA
by Morgan O. Reynolds
(Universe Books, 381 Park Avenue South, New York, NY 10016), 1984
309 pages ■ $14.95 cloth

Reviewed by Brian Summers

MORGAN REYNOLDS does an admirable job in analyzing labor unions, their legal privileges, and their economic consequences. His carefully reasoned arguments are easy to follow and are buttressed with many telling examples. The reader needs to bring nothing more than an open mind.

Professor Reynolds begins where most labor economists fear to tread: the nature of unionism. Labor unions, he shows, are legal monopolies. Through various Acts of Congress, National Labor Relations Board rulings, and Supreme Court decisions, unions have obtained monopoly power over the labor supply in key industries.

According to popular opinion, this monopoly power is needed to counterbalance the power of employers. But most observers fail to see the obvious: When unions strike, employers are not on the receiving end of union threats and violence. The object of the strikers' wrath is anyone who wishes to work. A strike isn't an expression of worker solidarity; it is an act of civil war between those who want to work and those who resort to violence to prevent others from working.

Such monopoly power has grave economic consequences. When unions force wage rates above market-clearing levels, a labor surplus is created, and thousands of workers lose their jobs. Some of these workers have to seek employment in the nonunion sector, where increased competition among workers drives wage rates lower.

How should unions be dealt with? Many concerned people believe that union force should be met with government counterforce. But countering violence with more violence doesn't get to the heart of the problem. Professor Reynolds offers a more basic solution:

"It is fruitless and naive to blame unions for their use of force to pursue monopoly gains or urge them to reform themselves. They are responding to incentives that allow them basically to operate outside of the rule of law, despite the huge and expanding web of labor rules and regulations. The long-run answer to the power of unions is to eliminate their special legislation, their legal immunities, and their special governmental agencies and to treat unionists in a manner consistent with everyone else under contract and tort law." ⊕

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